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The Impact of the U.S. Presidential Elections on the Stock Market Risk - Return Dynamics

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Description

The political developments, such as presidential elections in a country, are strongly related to economic, business, and social developments. The U.S. presidential elections are so strategic that they impact current and future developments in political, economic, and social developments not only within the USA but globally as well. Every time the presidential elections take place in the U.S. the general instability phenomenon rises, which reflects on the climate of financial markets and it becomes volatile, uncertain, and unpredictable in comparison to other times.

The main research problem of this thesis was to investigate if there exist any associations between the U.S. presidential elections and the risk and return of the companies. The secondary data were collected from 50 U.S. publicly listed companies for the four election periods: 2004; 2008; 2012; 2016. Each period included pre, during and post-elections years. All the data were collected from the S&P stock exchange official databases and the financial statements of the sample companies. The analysis was performed by using SPSS software. The analysis included descriptive, correlation, and multivariate ordinary least square (OLS) regression statistics. To support the research hypotheses, that the presidential elections affect the US stock market, the research methods were chosen in a logical and justified manner.

The empirical findings show that there is a strong relationship between the U.S. presidential election and market fluctuation. The research results substantiate that the Presidential elections make an impact on stock market risk - return dynamics. However, the unsystematic risk affected the sample companies' risk adjusted return goes inversely, whereas, the systematic risk was found to be positively associated with both annualized return and risk adjusted annualized return performance are increasing. Therefore, the overall narrative of the thesis is "that is higher the risk, higher the return".

Keywords (subjects)
Presidential elections, Risk-Return, Annualized Return of Firm, Market Annualized Return, Jensen´s Alpha, Return to Risk Market, Total Annualized Firm Risk, Total Unsystematic risk.

Miscellanous

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1 Introduction

In this chapter the author introduces a background of current thesis, which include inside the research questions, research problems, research objective and the structure of this research work.

1.1 Background

The U.S. presidential elections are a very important event for the U.S. as well as for the entire world community because the U.S. is the world's largest economy. (Bajpai P., 2020) The U.S. is a highly developed country which has strong political power. Thus, the U.S. presidential election results can change the direction of world social-politico-economic development. This study is based on the premise that the U.S. presidential elections have a significant impact on the U.S. and global Stock Exchanges. The U.S. stock markets are a biggest in the world. (Surz R., 2018)

The stir related to the elections campaign in the U.S., has always been accompanied by controversies in the political and business life of the in U.S. Any developments regarding changes of political ideology and strategy in White House have always been followed by instabilities, reshuffles and readjustments in stock markets. Another premise of current thesis is the level of uncertainty during the period of election campaigns may go up and therefore reflects upon the social and business life of the country. During the elections years Capital markets are operating in uncertain atmosphere and as a result some companies may gain, the others can lose. The research background of this thesis appears on the political developments in the U.S., regarding the presidential elections. The principle of research background is that the stock markets cannot remain unaffected by the political developments. Presidential elections are tightly impacting on the U.S. future development in general and are an integral part of any of political, economic and social development inside and outside of the country. Every time the presidential elections take place in the U.S. the instability phenomenon rises, which is reflecting on financial markets climate itself. Thus, the financial markets climate becomes volatile, uncertain and unpredictable. The main research problem of this thesis is to investigate if there any

associations between the U.S. presidential elections and the risk and return of the companies.

There is no surprise seeing political mudslinging in the media regarding allegations and counter-allegations made by politicians against each other, before the presidential election, during and even after. "Every time Presidential-elect Donald Trump tweets, the markets listen. Since his election victory he has sent shares in companies such as Boeing, Lockheed Martin, Toyota and Pfizer reeling into the red, shaving off billions of dollars from their market value in minutes.."(Rodionova Z., 2017).

The changes in political trends have often been followed by dramatic changes in the stock markets, major losses and unpredictable success of companies.

The winning and losing of a certain party can result in favorable or unfavorable influence on the stock markets, capital gains, revenues and other investment risks.

Thus, several questions may arise due to the above phenomenon, such as:

- Do the changes in politic impact the risk-return dynamics in the stock market?
- Are the risk-return dynamics in the stock market arising due to political developments following a certain pattern?
- What is the specific risk-return dynamics that are associated with the above political developments?

The United States have a two-party political system. The leading parties are the Democratic and Republican, which since 1852 invariably win the presidential election and since 1856 control the U.S Congress.

The main purpose of this research is to investigate does the presidential election have any impact on the company's performance. The performance is measured by the stock returned, the annualized stock return and based on Risk-Return analyses of dynamic and additionally measured by Levered beta, CAPM, Jensen´s Alpha. Thus, this research goal is to find out any connection, association between U.S. presidential

elections and the type of political ideology of the party which comes in power. Therefore, it is important to investigate does these phenomena have any association with the top-fifty of leading U.S. companies and its performance in order to measure its Risk- Return.

The main research problem of this thesis was to investigate if there any associations between the U.S. presidential elections and the risk and return of the companies.

The research objective is to investigate the impact of the U.S. presidential elections on the stock market U.S. to study the impact of the presidential elections in U.S. on the Risk Return dynamics of the U.S. on the leading companies in U.S., in order to identify the linkages between the political party in the political power and the Risk Return dynamics in the U.S.

The main research questions of study are:

1. Does the U.S. presidential election impact the Stock Market in the U.S.?

2. Does the presidential election make an impact on the Risk-Return dynamics about the U.S. firm?

3. Is there any relation between the certain political party victory and the Risk-Return dynamic?

In order to answer the research questions the decision was made by the researcher to investigate four president election periods in U.S.: The presidential election 2004, 2008, 2012 and 2016. The current research has been based on data analyses. All key data has been taken from the U.S. stock market and by nature it is a historical stock market data. Thus, the historical data of fifty biggest publicly listed U.S. companies have been taken from the U.S. stock market under this investigation.

The samples of firm had been selected randomly from different industrial sectors of U.S. economy, in order to make analyses more reliable.

Thus, it has been planned to investigate the historical stock market data of fifty companies through each of the four presidential election periods and three subperiods including analyses of the data of the year prior to the presidential election, the year of presidential election and the first year after the presidential

election. In U.S., the duration of election campaign period is equal to 365 days. Therefore, the analysis included the year of the presidential elections, the previous year, as well as the post-election year. The pre, during and post-elections years were taken under the research investigation to study the results of the presidential elections on corporate risk-return dynamics comprehensively, systematically and chronologically. Thus, through the quantitative analysis of secondary data, the researcher will try to detect possible tendency in changes on stock market performance which can be connected with the political changes. As the theoretical concepts in this research was taken: Risk-Return, Market Risks performance, Capital Asset Pricing Model (CAPM), Jensen´s Alpha and Arbitrage Pricing Theory (APT). Accordingly to these theoretical concepts the researcher plans to determine and measure the Risk Return, to identify the possibility that the actual return on investment was differentiated as compared to the expected return, as well as to determine was it the low risk or high risk, systematic or unsystematic.

1.2 Structure of the thesis

In order to familiarize the reader with the main aspects of current thesis, the researcher divided it on four main research steps:

- First step - Literature review and theoretical background, introduce the reader with the theoretical concepts concerning the research topic, as well with the U.S. presidential elections history. Moreover, this part includes an Empirical review of the literature and Hypothesis development.

- Second step - Methodology is introducing the reader with the research design, the data collection and data analysis methods implemented in the study, as well as introduces the main key variables of current investigation.

- Third step - Research Findings and Results includes the research results and its interpretation in accordance with the hypotheses put forward.

- Fifth step - Conclusion includes the discussion of the research result, the research questions answers and hypotheses support, and it provides limitations and recommendations for the future research.

2 Literature review and theoretical background

The follow chapter is introducing the reader with historical facts of U.S. presidential elections and the theoretical background of current research work. This chapter includes the empirical literature review and hypothesis.

2.1 Historical background

In order to better understand the rules, followed by in the U.S. during the presidential elections and election campaigns, this chapter is focuses on the historical developments in the U.S. political system. Government is a collection of the institutions that make public policy decisions. In the U.S. these institutions are Congress, the president, the courts, and federal administrative agencies.

Democracy is a system of selecting policymakers and of organizing government so that policy reflects citizens' preferences. Thus, all citizens should actively participate in choosing their leaders. Currently, the United States has a two-party political system that consists of the Democratic and Republican parties. Starting from 1852 till nowadays, these two dominant parties alternately win all U.S. presidential elections. In U.S. politics, Democrats occupy positions just to the left of the center, and Republicans are to the right of the center. However, the strength of parties in the U.S. is determined by the votes that these parties can collect in elections. To begin, let us consider the historical formation of the party of Democrats and Republicans.

Historians distinguish five main stages in the development of ideological trends in the United States.

First period (1796 – 1828)

This stage is characterized by an exacerbation of disagreements between Federalists and Anti-federalists. "Throughout the states, a fierce battle erupted between the Federalists, who supported the Constitution, and the Anti-Federalists, who opposed it" (Edwards, Watternberg, Lineberry, 2012, 54.) The Anti-Federalists believed that the new government was an enemy of freedom.

“One objection was that the new Constitution was a class-based document, intended to ensure that a particular economic elite controlled the public policies of the national government.” (Edwards, Watternberg, Lineberry, 2012, 56.)

Alexander Hamilton was at the head of the Federalists and represented the interests of the aristocracy and industrialists of the North, who were convinced of the need for centralization of power. Jefferson’s anti-federalist supporters, expressing the position of the agricultural South, proposed minimizing the role of the federal authorities and defended the rights of each person to personally participate in the political life of the country.

Jefferson's victory over John Adams in 1800 marked the beginning of the end of the federalist party. With the advent of James Monroe in power in 1820, the federalist party split into two factions - the National Republicans led by John Quincy Adams (Whig Party) and the Democratic Republicans calling themselves Democrats.

Second period (1828 – 1860)

In the presidential election of 1828, Democrats led by Andrew Jackson won and carried out a reform of the electoral system, introduced universal suffrage for all adult white men and direct voting. The Democratic Party relied heavily on the support of small farmers, Catholics, and new immigrants. Whigs (Republicans), defended the interests of large industrialists of the Northeast, planters of the South and Protestants. In 1841 they came to power, led by William Henry Harrison (The History of Political Parties N.D.).

Third period (1860 – 1896)

This stage is characterized by the beginning of disagreement and division in society on issue of the existence of U.S. slavery. Due to disagreements on this issue, the Whig party split before the very outbreak of the North-South Civil War (1861-1865). From the remnants of the party, as well as the part of the democrats who joined them, a new party was formed, called the Republican (Grand Old Party). The first President of this party was Abraham Lincoln. The Republicans came to power supported by retired military men, blacks, immigrants and Protestants. Democrats, on the contrary, had support mainly among South representatives, Irish Catholics,

farmers, and trade unions. Democrats advocated restricting the role of the central government and expanding state rights. Throughout this period, the Democratic Party of the Federals won the elections only twice - in 1884 and in 1892, led by Stephen Grover Cleveland (The History of Political Parties N.D.).

Fourth period (1896 – 1932)

This period was a tipping point in the U.S. politics. In 1896, William Jennings Bryan from the Democratic Party was defeated in the election. Democrats represented the interests of the agricultural regions of the South and West. His loss in the election showed that the industrial, urbanized areas of the United States seriously and for a long time turned towards the Republicans ideology. The election was won by William McKinley from the Republican Party (Grand Old Party). Republicans were proposed to reduce the expenses on social needs and redirect the saved money to increase business activity, which ultimately would lead on the budget increase, and thereby satisfy large-scale social needs. This propose found support for most U.S. citizens at that time.

This period was accompanied by active speeches of the Progressive Party (founded in 1912 by Theodore Roosevelt), which advocated reform of the political system; these speeches followed the discovery of fraud in the elections, when party officials, in some cities, filled election bulletin-boxes by bulletins, which was already filled in advance. Some of the ideas of this Third-party were later legitimized - the need for voters to register in advance, secret voting etc. These reforms weakened the influence of party apparatuses, and voters again became the main participants in the electoral process (ibid., N.D.).

Fifth period (1932 – 1980)

The Democrats' dream of returning to the White House came true with the onset of the crisis and collapse of economy in 1929 (Great Depression 1929- 1939), which heavily impacted on the reputation of the President - Republican Herbert Clark Hoover. The Republicans had not been able to handle the crises situation and millions of frustrated and unemployed U.S. citizens elected Democrat - Franklin Delano Roosevelt in 1932. Franklin Delano Roosevelt promised to carry out and carried out the country from the crises. He provided a large number of anti-crisis

measures. Besides the fact that he was elected four times in a row on the precedence elections, it is also unique that he was created a completely new series of programs, public work projects, financial reforms known as a New Deal. A New Deal Coalition" led to political realignment, which made the Democratic Party popular and dominant for a long period of time.

After the Second World War, Republicans again came in power in 1956, 1952. Subsequent, the presidential election 1968 and 1972 won by D. Eisenhower, Richard Nixon and in 1980 and 1984 Ronald Reagan, and in 1988 won by George W. Bush.

During this period, Democrats had a majority in both houses of the U.S. Congress, and in legislative assemblies in most states. Thus, Democrat Bill Clinton won the Presidential election in 1992. (The History of Political Parties)

Table 1 U.S. Presidential Election Results (Adapted by the author from internet source Encyclopaedia Britannica)

Presidential election year	Gain	Loss
1789	George Washington	John Adams
1792	George Washington	John Adams
1796	John Adams. Federalist	Thomas Jefferson. Democratic -Republican
1800	Thomas Jefferson. Democratic - Republican	Aaron Burr. Democratic - Republican
1804	Thomas Jefferson. Democratic - Republican	Charles C. Pinckney. Federalist
1808	James Madison. Democratic-Republican	Charles C. Pinckney. Federalist
1812	James Madison. Democratic-Republican	DeWitt Clinton. Federalist
1816	James Monroe. Democratic-Republican	Rufus King. Federalist
1820	James Monroe. Democratic-Republican	
1824	John Quincy Adams. Democratic-Republican	Andrew Jackson. Democratic - Republican
1828	Andrew Jackson. Democratic	John Quincy Adams. National Republican
1832	Andrew Jackson. Democratic	Henry Clay. National Republican
1836	Martin Van Buren. Democratic	William Henry Harrison. Whig
1840	William Henry Harrison. Whig	Martin Van Buren. Democratic

Presidential election year	Gain	Loss
1844	James K. Polk. Democratic	Henry Clay. Whig
1848	Zachary Tailor. Whig	Lewis Cass. Democratic
1852	Franklin Pierce. Democratic	Winfield Scott. Whig
1856	James Buchanan. Democratic	John C. Frémont. Republican
1860	Abraham Lincoln. Republican	Stephen A. Douglas. Democratic
1864	Abraham Lincoln. Republican	George B. McClellan. Democratic
1868	Ulysses S. Grant. Republican	Horatio Seymour. Democratic
1872	Ulysses S. Grant. Republican	Horace Greeley. Democratic
1876	Rutherford B. Hayes. Republican	Samuel J. Tilden. Democratic
1880	James A. Garfield. Republican	Winfield Scott Hancock. Democratic
1884	Grover Cleveland. Democratic	James G. Blaine. Republican
1888	Benjamin Harrison. Republican	Grover Cleveland. Democratic
1892	Grover Cleveland. Democratic	Benjamin Harrison. Republican
1896	William McKinley. Republican	William Jennings Bryan. Democratic
1900	William McKinley. Republican	William Jennings Bryan. Democratic
1904	Theodore Roosevelt. Republican	Alton B. Parker. Democratic
1908	William Howard Taft. Republican	William Jennings Bryan. Democratic
1912	Woodrow Wilson. Democratic	William Howard Taft. Republican
1916	Woodrow Wilson. Democratic	Charles Evans Hughes. Republican
1920	Warren G. Harding. Republican	James M. Cox. Democratic
1924	Calvin Coolidge. Republican	John W. Davis. Democratic
1928	Herbert Hoover. Republican	Al Smith. Democratic
1932	Franklin D. Roosevelt. Democratic	Herbert Hoover. Republican
1936	Franklin D. Roosevelt. Democratic	Alf Landon. Republican
1940	Franklin D. Roosevelt. Democratic	Wendell Willkie. Republican
1944	Franklin D. Roosevelt. Democratic	Thomas E. Dewey. Republican
1948	Harry S. Truman. Democratic	Thomas E. Dewey. Republican
1952	Dwight D. Eisenhower. Republican	Adlai Stevenson II. Democratic
1956	Dwight D. Eisenhower. Republican	Adlai Stevenson II. Democratic
1960	John F. Kennedy. Democratic	Richard Nixon. Republican
1964	Lyndon B. Johnson. Democratic	Barry Goldwater. Republican
1968	Richard Nixon. Republican	Hubert Humphrey. Democratic
1972	Richard Nixon. Republican	George McGovern. Democratic
1976	Jimmy Carter. Democratic	Gerald Ford. Republican
1980	Ronald Reagan. Republican	Jimmy Carter. Democratic
1984	Ronald Reagan. Republican	Walter Mondale. Democratic

Presidential election year	Gain	Loss
1988	George H.W. Bush. Republican	Michael Dukakis. Democratic
1992	Bill Clinton. Democratic	George H.W. Bush. Republican
1996	Bill Clinton. Democratic	Bob Dole. Republican
2000	George W. Bush. Republican	Al Gore. Democratic
2004	George W. Bush. Republican	John Kerry. Democratic
2008	Barack Obama. Democratic	John McCain. Republican
2012	Barack Obama. Democratic	Mitt Romney. Republican
2016	Donald Trump. Republican	Hillary Clinton. Democratic

In order to continue this short historical observation, it is necessary to add the presidential period of Barack Obama. During his presidency, in 2010 elections the Republicans gained control of the House of Representatives. This gain connected with a list of proposals known as “A Pledge to America.”. “A Pledge to America” was helping the Republicans gain control of the House of Representatives after 40 years of Democratic majorities. Among the items in this list were extending the tax cuts passed under President Bush, providing for new tax deductions for small businesses, and repealing newly enacted health care mandates on business. (Edwards, Watternberg, Lineberry, 2012,256.)

Therefore, it can be noted here that even during the last two presidential periods of Democratic leadership (2008, 2012), the Republican Party also actively participated in the economic development of the country. Despite the differences in the political interests of both parties, both of them in all the periods listed above actively participated in public administration through their presence in various government institutions.

For two hundred years, the basic ideological postulates of both sides have changed little. Today, Republicans are mainly focused on wealthy, educated, and conservative voters. Republicans usually talk about family values, individualism, reliable protection of the country, suggest minimizing government intervention in the economy and limiting the regulation of large businesses. Today, Democrats find support among all kinds of minorities and trade unions. Thus, Democrats advocate the idea of social justice and productive employment.

In this research work the researcher is mainly focused on the historical period of presidential election 2004-2016.

- On the 55th presidential election in 2004, the Republicans with George W. Bush won the elections with a slight margin of 50.7% of the vote and 286 of the votes.

  The first presidential period of George W. Bush (2000-2004) was tightly connected with the events of September 11, 2001 in New York City. The terrorist attack fundamentally changed the direction of the country's foreign policy. The fight against terrorism and military operations in Iraq (2003) and their consequences were the main topics throughout the presidential election campaign. Democrats led by John Kerry, have criticized George W. Bush's foreign policy practices.

  Thus, throughout the president election campaign, George W. Bush relied on the need to protect the United States from terrorism and build a property society. He proposed to rally citizens to against international terror and called for the establishment of an "ownership society," a partial privatization of Social Security, giving workers the option to shift some of their payroll taxes into personal accounts they manage themselves. George W. Bush has pledged to cut the deficit in half by 2009, and NEC director Friedman suggested that goal was attainable, with tax-cut-fuelled economic growth and spending controls. (Gongloff M., 2004)

  Thus, the idea of Republicans was to allow citizens to invest some of their Social Security in the stock market, increasing property and stock ownership and also to attract people to invest the profit in own health insurances. However, but despite fierce criticism by Democrats regarding George W. Bush's plans about the country's domestic and foreign policies, most of voters supported him in the presidential elections on 2004.

- In the 56th presidential election in 2008, a candidate from Democratic party Barack Obama defeated Republican John McCain.

According to the 22nd amendment to the U.S. Constitution, George W. Bush did not have the right to be elected for a third term, so presidential candidate John McCain was nominated by the Republican Party. Like George Bush's previous campaign, John McCain focused on the Iraq war. Obama strongly advocated reducing the number of troops in Iraq and paying more attention to the war in Afghanistan.

Barack Obama launched a campaign on “Washington must change,” where he emphasized the need for change in the White House and in politics in Washington. He proposed a major health care reform, economic restructuring, as well as higher taxes for high-income citizens and lower taxes for low-income citizens.

Against the backdrop of the financial crisis (2008), the policy pursued by George W. Bush was not popular, and moreover, criticized. And since John McCain was a Republican candidate, Barack Obama linked him to the failures of the Bush administration. The political positions of which were similar to those of President Bush.

- On the 57th presidential election in 2012, candidate from Democratic party Barack Obama defeated Republican Mitt Romney.

  Due to the economic crisis and the high level of unemployment, one of the leading topics of the entire election campaign in general was the economy. At that time, as a still acting president, Barack Obama defended his economic policy, which was effective during the financial crisis, prevented the economic depression and aimed at recovery. As part of the economic recovery, Barack Obama suggested to invest in and develop transport infrastructure and education. His election campaign was focused primarily on the country's domestic politics and issues such as the long-term federal budget, the future of social insurance programs, and the Affordable Health Care Act. Foreign policy, including ending the war in Iraq, military spending, the Iranian nuclear program and related counter-terrorism measures (Munro A., 2012).

The Mitt Romney Republican candidate program included tax cuts in favor of supporting small businesses that would be effective for the economic growth. Nevertheless, the Obama campaign turned out to be more competitive at that time, since most of the country's citizens supported him through voting (Munro A., 2012).

- On the 58th presidential election in 2016, candidate from Republican party Donald Trump defeated Democrat Hillary Clinton.

Donald Trump's election campaign promised "Make America Great Again." Donald Trump opposed free trade agreements and military interventionist policies. "Donald Trump raged against globalization and free-trade agreements on Tuesday and urged the U.S. to declare economic independence again". (Jacobs B., 2016) Donald Trump opposed illegal immigration. Trump has called for as much as a 45 percent tariff on Chinese exports to the US and a 35 percent tax on cars crossing the Mexico border, arguing his protectionist approach would bring high-paying manufacturing jobs back to the US (Becker B., 2016) He repeatedly promised to build " a big, beautiful "border wall and to force Mexico to pay for it.

During the presidential election campaign, Hillary Clinton accused Donald Trump and his supporters of excessive fanaticism. Hillary Clinton supported the further development of the political course of her predecessor, Barack Obama. She condemned racial discrimination and proposed simplifying the process of accepting citizenship for immigrants. She advocated for the empowerment of women.

The main directions of her election campaign were aimed at improving the free healthcare system and the educational system.

Hillary Clinton prepared a detailed economic plan based on the philosophy of inclusive capitalism. This program included a change in the tax system, a plan to create new jobs, and increased financing for infrastructure and production (Becker B., 2016).

2.2 Debt and Equity

Each investor should have expectations that the business in which he invested will grow. And for any investor, it should be clear that a company that increases its income is likely to show an increase in the price of its shares. However, for the company to implement new projects that could lead to its growth, it will require additional capital. This capital will come from one of two sources: debt or equity (Welch. I., 155-164).

Debt to Equity Ratio is one of the most common tools that investors can and should use in fundamental analysis. It is important in that the large obligations or level of leverage that the company uses can also create big problems for any company. Especially if the income will decline. In this case, the management will have to withdraw money from the business in order to finance its debts.

The ratio of debt to equity of the company is a relative measure of the effectiveness of a firm that measures the level of its debt to the total value of its shares. The ratio of debt to equity is expressed either as a number (coefficient) or as a percentage and allows any investor to compare how many company assets and potential profits are obtained from borrowed funds. The ratio of debt to equity is easy to calculate, since all the information necessary for the calculation can be found in the company's balance sheet (ibid).

Public companies use project financing through debt, as it is cheaper for the company, in contrast to obtaining financing by issuing new shares. In addition to the fact that this is a cheaper way, debt financing is used because it allows the company to use leverage, which can increase the value of the company through the use of borrowed money without increasing the number of participants in the company.

Debt to Equity Ratio = (Short Term Debt + Long Term Debt) / Shareholders 'Equity

The interpretation of the Debt / Equity ratio

A company that has a debt to equity ratio of 1 has one unit of equity in its equity for each unit of cash in all of its liabilities. If a company has a high debt ratio, they say that the company takes high risks. This is because, unlike equity or equity capital,

debt obligations must be repaid with interest. An organization with a high level of debt is at risk of adverse rate changes, if they grow and debt service becomes more expensive, this can add volatility to the dynamics of its income and, as a result, the unpredictability of the price of its shares (Welch. I., 155-164).

Investments in infrastructure or technological re-equipment, through the use of borrowed funds, can increase the company's profit, and, significantly. If the increase in profit exceeds the amount of interest that the company pays for servicing its debt, then existing shareholders will benefit, because higher incomes are divided among the pool of shareholders, which will remain the same. However, if interest payments on debts are higher than an increase in profits, then the market value of the company will be under pressure, which means that the price of its shares may decrease. It is quite bad if the company's debt value becomes too large to handle, the company may have to file for bankruptcy. This is the worst result for shareholders, who, as a rule, in this case will not get any of the funds invested in the organization.

Debt for a business is commonly cheaper compared to raising equity. Debt reflects arrangement between firms and their lenders. Debt includes cost of debt (finance costs/interest) and time period of maturity (Swanson, Srinidhi & Seetharaman 2003, 2) Although a company is not required to return the money it receives from shareholders, investors who contribute capital to the company in the form of a share purchase expect a return known as the cost of capital. Debt, although it requires repayment, can usually be financed at an interest rate that is much lower than the expected return of the cost of capital by the investor.

For example, the absence of obligations can be considered as a sign that either the company is holding too much money, or they are inefficiently financing their debt and use expensive share capital for this. In the case of too much cash, this may mean that the company is too conservative and misses opportunities for its development. In the short term, their balance sheet will look good, but overall a large amount of cash will be visualised as a problem (ibid; Hillier et al. 2012, 522).

However, equity is expensive because of the expectations that shareholders place on the business. And the first expectation of any investor is associated with a high return on equity. It means how much profit the company receives for each $ that it receives from shareholders. Reasonable debt policy of the company can effectively increase the profitability of the business or the profitability of using the company's own capital.

Often it is happening so, that preferred shares are sometimes removed from equity and added to liabilities. The reason is that preferred shares are distributed immediately from the date of issue with the expectation of dividend payment.
The type of industry in which the company operates also affects the relationship between Debt and Equity. Some productive industries require more equipment. Therefore, you need to compare the ratio of debt to equity of the company with competitors in the same sector (Chadha & Sharma 2015, 295-296).

Thus, a lower debt to equity ratio is better than a high one.

Equity

The capital structure includes equity too. The equity holders are the residual claimants of the company. In corporations, equity capital is the capital generated from the shareholders. The equity can be also internal. It could include the family and own capital involving and angel investors – wealth individuals and venture capitalists, who as well invest their personal funds into established companies with high growth potential (Equity Finance 2015). The firm has no financial obligation to the owners, considering the dividend payments and capital appreciation. Thus, the money or their equivalent flows to the public traded firms, through the issuing of the common shares (Agarwal 2013, 12-13.).

2.3 Risk- Return

The basis of business activity is the expectation of an income exceeding the usual average return. The main goal of any investor´s activity is to make a maximum profit (return). In order to determine the return, the total return received from holding an asset or portfolio of assets, its need to measure it by Holding Premium Return formula. Holding period return is express through this formula:

$$HPR = \frac{income + (end\ of\ period\ value - original\ period\ value)}{original\ period\ value} * 100$$

Thus, the return is a key indicator of the effectiveness of any investment. These expectations are quite uncertain - they may come true or not, so the business is always associated with risk. Anticipating and mitigating the negative effects of uncertainty in expectations is the main object of risk management. (Welch. I., 177-197)

Risk management processes include identification and assessment of risk, regulation, documentation, manipulation (controlling).

The concepts **risk** and **return** form the core of modern concepts of risk management. The inevitability of risk in the quest for over-high incomes is considered when planning, creating and developing an enterprise in business plans.

For example, when conducting market research, consider the possibility of being in a loss when demand falls and price changes for products and resources. In the planning and organization of production processes, the risk of a decrease in profitability is considered, setting a certain level of resource use efficiency, the level of current costs and profits. (ibid., 177-197)

When specialists are making decisions about investments and financing, they considering the risk of loss of financial stability and liquidity. In the process of monitoring a business plan, a conscious and accepted level of risk is monitored while organizing and coordinating the activities of departments and contractors. The remuneration of managers, respectively, should depend on their ability to anticipate developments and make effective decisions in the face of increased risk.

Financial risks

Any action involves uncertainty and risk. Risk is essentially the likelihood that any action can lead to adverse consequences.

There is not any uniform definition for risk phenomena. Risk not always have negative conception; risk also could be defined as a positive phenomenon. Thus, it is possible to characterise risk by this definition: Risk is the potential of losing

something of value, weighed against the potential to gain something of value. (Kungwani P., 2014, 83.)

Financial risk is the possibility of any deviation from the planned result of any financial activity; the deviation can be either negative or positive. Financial risk is a dynamic phenomenon that changes its quantitative level at different stages of the enterprise's functioning under the influence of external and internal factors. Financial risk is a managed process that can and should be influenced. It can also be defined as the potential for cash flows or asset values to vary from expectations due to changes in prices, which gives an indicator of the measurement of the risk: the more volatile the price, the greater the risk (Dun & Bradstreet 2009, 3).

Financial risk arises through countless transactions of a financial nature, including sales and purchases, investments and loans, and various other business activities. It can arise as a result of legal transactions, new projects, mergers and acquisitions, debt financing, the energy component of costs, or through the activities of management, stakeholders, competitors, foreign governments, or weather (Horcher K., 2005, 17).

For the effectiveness of the financial risk management process, first it is necessary to determine the type of financial risk assessment, which will allow you to choose the right set of measures for assessment and management.

Depending on the source of the risk, risk can be divided into different types, such as: Market risk; Credit risk; Liquidity risk; Operational risk; Modal risk; Legal and Regulatory risk; Business risk; Strategic risk; Reputation risk.

- Market risk is the risk tightly connected to any changes in Market space, which can decrease the value of that the value of the investment.

- Credit risk this risk is associated with debt, in case of failure to fulfill obligations, non-payment by the debtor of a loan or interest under the terms of a debt agreement, this can lead to losses and even bankruptcy. (Horcher K., 2005, 39)

- Liquidity risk is interconnected with the market; it arises in situations where an interested party in trading an asset cannot do this because the market does not want to trade this asset. Thus, it affects those who currently own the asset, but are not able to trade it.

- Operational risk is rice associated with losses resulting from inadequate or unsuccessful internal processes and as a result of external events.

- Modal risk is interconnected with errors in financial models and reports. The reasons for this risk are higher personnel incompetence when using complex financial instruments and the disadvantages of automated software applications. (Hull J., 2015)

- Legal and Regulatory risk is interconnected with legal restrictions, such as lawsuits. For example, if a company must face financial losses from litigation, this is a legal risk.

- Business risk is type of risk is taken by the commercial enterprises themselves in order to maximize shareholder value and profit. For example, companies take costly marketing risks to launch a new product to increase sales.

- Reputation risk is interconnected with loss of business reputation.

Nobel laureate of 1990 W. F. Sharpe (1964) identified two components of the overall risk of any asset:

Unsystematic risk is also known as Micro-economic risk, Specific risk and Diversifiable risk. Unsystematic risk interconnected with the specifics of the enterprise and its capital, by other words unsystematic risk is interconnected with any actions inside of the company. This type of risk can be predicted by diversification. i.e. diversified risk which is eliminated by a combination of securities in the portfolio. (Quiry, Le Fur, Salvi, Dallocchio & Vernimmen 2011, 315-316)

Systematic risk is known as Macro-economic risk, Market risk, Volatility risk. It is a risk of uncertainty. Systematic risk is interconnected with changes occurring in the external environment, market reaction to certain events or phenomena from

outside. Systematic risk has an un-diversifiable and have unpredictable nature. Thus, If the inflation rising or interest rate increases then it could have an effect on business in general, there is no way to protect from these factors influence by diversification. In these circumstances, in order to protect the business from, it need to take financial insurance – hedging (Horcher K., 2005, 45).

Total Risk = Unsystematic risk + Systematic risk

The components of Systematic risk are purchasing power risk, interest rate risk. Since, by forming a portfolio, an investor can eliminate diversified risk (by selecting assets whose correlation coefficient is not equal to +1), the risk of a well-diversified portfolio will depend on the market risk of the securities included in this portfolio.

$$-1 \leq \boldsymbol{Correlation} < +1$$

By combining assets into a portfolio, the investor thereby reduces the risk, i.e. reduces the value of variance across the portfolio. With an increase in the number of assets in a portfolio, portfolio risk decreases very quickly with a small total number of assets, and risk reduction slows down with numerous combinations, as more and more assets are positively correlated with each other. Market risk is best measured as value at risk using probability analysis based on a common confidence interval (e.g., two standard deviations) and time horizon (e.g., a one-day exposure) (ibid., 17).

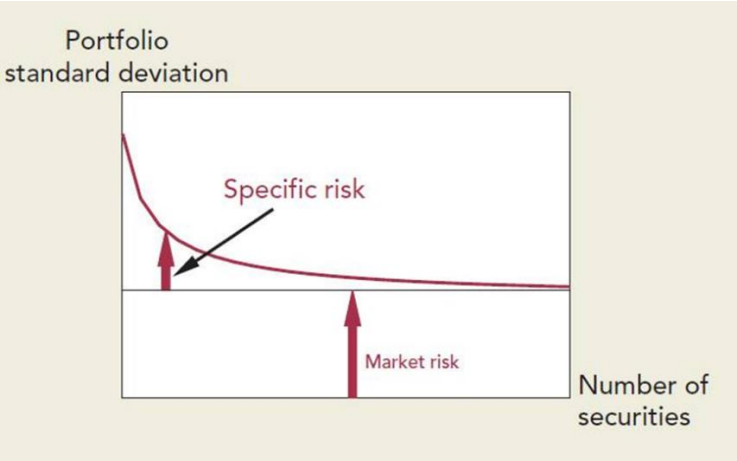

Figure 1 (Adopted from Brealey et al. 2014, 170)

A significant reduction in specific risk (unsystematic risk) can be achieved by forming a small portfolio. Absolute leveling of a specific risk requires the inclusion in the

portfolio of all assets circulating in the market, i.e. formation of a market portfolio. W. F. Sharpe (1964) introduced the concept of β to measure the systematic risk of an asset. To assess how the inclusion of a new security in a well-diversified portfolio will affect its risk, it is not so important to know the total risk of this security, σ^2 total. It is enough to know the market risk $\sigma_m{}^2$ and determine how sensitive this security is in relation to the market movement ($\sigma^2_P = \sigma^2_M$). This sensitivity is measured by a β-coefficient. β shows the level of volatility of an asset (for example, security) relative to the market portfolio (average asset). Statistically β stocks j can be determined as:

$$\beta = \sigma^2_{jm} / \sigma^2_m$$

σ^2_{jm} - is the covariance between the stock return j and the market yield determined by the dynamics of the market index (stock market index on which the stock is quoted);

σ^2_m - the dispersion of market profitability.

Thus, the β-coefficient is the slope of the line, reflecting the dependence of stock returns on market returns. This line is called the characteristic line (straight line). Stocks with β less than one and more than zero are moving in the same direction as the market, but more slowly. The market can be considered as a portfolio of all shares, and therefore, the average share in the market (medium risk) has **D = 1**. The coefficient β allows us to predict how the price of an asset will change (increase or decrease) with knowledge of market behavior. The forecast of the asset price behavior (through β) allows you to evaluate the investment risk and expected return. β of the portfolio is the weighted average coefficient **D** of securities included in the portfolio. The greater the risk of the portfolio, the greater should be the compensation in the form of increased profitability. With an efficiently compiled portfolio, the diversified risk of the assets included in it can be ignored; compensation for this risk is not provided in the form of an increase in profitability. Only market risk (or β risk, systematic risk) should be compensated. (Watson & Head 2016, 258-259; Dimson 1998, 19-20)

Portfolio theory

In the process of building a portfolio of financial assets or portfolio of activities aimed at obtaining financial profit (projects, orders, investments), usually the goal is to get maximum income with minimal risk. However, the desire to get a high income is usually associated with high risk. Portfolio theory allows you to find rational trade-offs between expected income and the risk of financial transactions.

The beginning of the formation of portfolio theory is associated with work G. Markovich, subsequently awarded the Nobel Prize for his results in this field. The above theory was developed for portfolios of securities, since investments in securities can theoretically be considered as infinitely divisible, which simplifies the construction, and rich statistics make it possible to accurately approximate the probabilistic characteristics of these financial instruments.

However, the most important place in investment management is hold by the optimal portfolio theory, which is associated with the problem of choosing an effective portfolio that maximizes the expected return at a certain risk level acceptable to the investor. Theoretical methods allow to define the “expected return” and “risk” of the portfolio, and statistical data allows to estimate these characteristics.

Portfolio theory is a statistical analysis performed to select the optimal risk management strategy. The use of portfolio theory is to develop and evaluate a compromise between income and costs associated with risk reduction, which is necessary to determine the optimal mode of action for a given subject.

Portfolio theory focuses on how to choose from several financial options to maximize these preferences. In general, the optimal choice involves assessing the trade-off between obtaining a higher rate of return and increasing the risk of investment.

However, not every decision aimed at reducing risk leads to a decrease in expected profitability. There are circumstances in which both parties signing a risk transfer contract can reduce their risk level by paying for it exactly as much as the legal execution of the contract costs. For example, the buyer and seller can agree and set the actual price at the time of signing the contract, although the sale itself will take

place only after three months. Such an agreement is called a forward contract. By agreeing to conclude such a contract, both parties get rid of the uncertainty associated with fluctuations in housing prices over the next three months.

Thus, when opposing parties perceive the risk of the same event from different points of view, it is best for both to carry out the risk transfer using a contract, and neither side will have to incur significant costs.

Decisions related to risk management, the adoption of which does not entail costs, are the exception to the rule rather than the norm. Usually, to reduce the degree of risk, it is necessary to balance the necessary costs and benefits.

The first formal models of portfolio theory were developed to develop precisely this type of decision in risk management. In these models, a probability distribution is used to calculate the relationship between investment risk and their expected return. The expected return on the securities portfolio is determined as the average value of the probability distribution, and risk - as the standard deviation of the possible values of profitability from the expected.

2.4 Capital Pricing Assets Model

Since the late sixties of the last century, the investment theory associated with the capital asset valuation model has become popular. Its foundations were laid in the works of W. Sharpe. The Capital Assets Pricing Model (CAPM) is a model based on the relationships discussed above that relate to the selection of an optimal or efficient portfolio. As the systematic risk increases, the minimum expected return (hurdle rate) also increases. In other words, the model helps to find the relationships between the systematic risk and expected return. (Dimson 1998, 19-20.) The model is formulated for an ideal competitive market with the following basic properties:

• all market participants have complete and identical information about the returns on available assets;

• all assets are liquid, investors can buy and sell, borrow and lend any amount of assets, while a single interest rate applies for risk-free assets;

• all investors form their portfolios of risky and risk-free assets.

Among the listed properties of an ideal competitive market, the last condition seems to be the most restrictive, because of it the CAPM model has been seriously criticized for some reason. However, the main conclusions obtained based on this model find the practical application and are confirmed statistically.

In an ideal competitive market space, all investors have the same structure of the risk part of the portfolio, which coincides with the structure of the optimal pure risk portfolio. Finally, the assumption holds that all of the capital markets are perfectly competitive. (Watson & Head 2016, 258-259.)

Thus, it is concluded, that in a portfolio, stocks are the shares of all market capital that correspond to the total value of a stock of a certain type. However, this allows us to assess the characteristics of risk and portfolio profitability without solving the optimization problem using certain market indexes. For example, S & P500 index contains accumulated information about the stocks of the five hundred largest companies and largely reflects the behaviour of the financial market.

One of the fundamental concepts of financial theory is to find a compromise between risk and return. In the traditional approach to the ratio of risk and return, obtaining a higher return is associated with a higher risk. Thus, this does not consider the time horizon of investment.

In the theory of investing, the risk of a financial instrument is assessed by the level of volatility, as measured by the dispersion indicators, standard deviation and correlation coefficients, and the expected return as a mathematical expectation.

In classical financial theory, the relationship between risk and return is described by a linear function, which is most clearly demonstrated by the Capital Asset Pricing Model. In this model, the return on a financial instrument is a function of the return on risk-free investments and the investment risk premium.

$$R_i = R_f + \beta_i (R_m - R_f)$$

R_i= Return on Asset *i*

Rf= Return on Risk Free Asset

$\mathbf{B_i}$= Covariance of Asset and the Market (Divided by Variance of the Market)

$\boldsymbol{R_m}$ = Return on the Market Portfolio

The β coefficient relates the yield of the security to the yield of the market. Parameter β shows how much changes in the yield of an individual paper follow changes in the yield of the market. There is a special terminology related to the β-characteristic of the risk of a security. "β" is measuring the systematic risk by slope function. However, systematic risk cannot be reduced, but the impact of the market on the return on financial assets can be measured. As a measure of systematic risk of CAPM, the beta indicator is used, which characterizes the sensitivity of a financial asset to changes in market profitability. Through defining beta coefficient possible quantitatively evaluate the risk associated with price changes, changes in the overall market. The greater the value of beta stocks, the stronger its price rises with overall market growth, and vice versa, stocks with a large positive fall more strongly in beta when the market falls. Stocks with beta close to one are called risk neutral. Changes in their returns follow market movements, respectively, the risk associated with them is close to the risk of working in the entire market. Basically, CAPM shows the relationship between β and expected return to an asset. Risk-Free Rate highlights return with zero risk on investment. It ensures that an investor gets guaranteed original principal and a minimum return over a period of specified time period. Government bonds are considered risk free investments, with U.S. Treasury bonds being the measure of the risk-free rate. (Stowe 2007, 49)

In order to find Risk Premium need to minus from Market Return a Risk-Free Rate.

$$\boldsymbol{Risk\ Premium = R_m - R_f}$$

The analysis of the interdependence of risk and return in the Capital Asset Pricing Model is carried out in the same plane with the coordinates risk-return. This model reflects a fundamental approach to assessing risk and return: the greater the risk, the higher the profitability of an investor.

Due to the fact, that the interdependence of risk and return is expressed by a linear function, it is possible to increase return only by accepting additional risk. If the investor wants to reduce the risk, then he must agree to get a lower return.

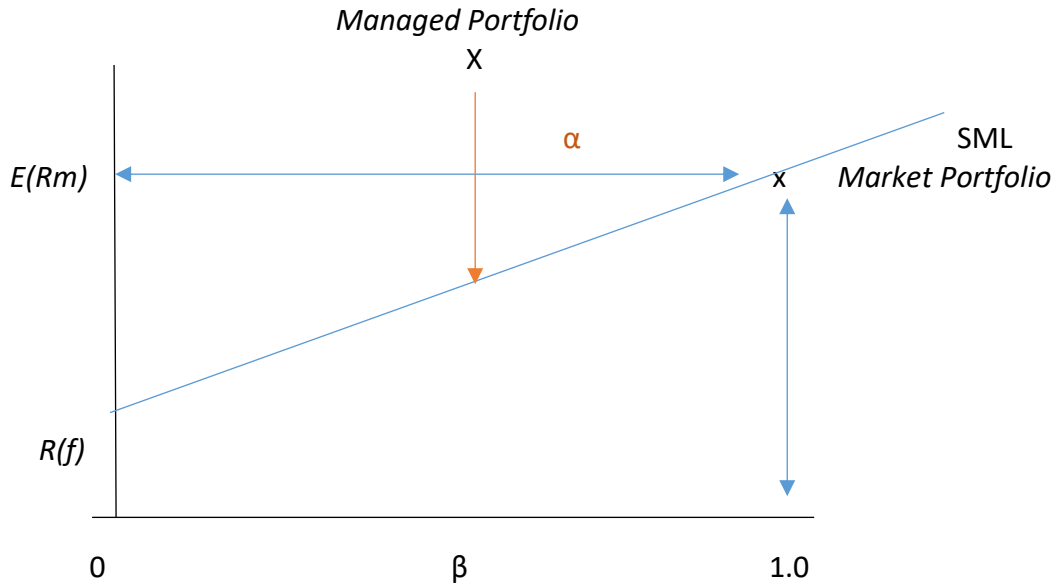

Figure 2 Capital Asset Pricing Model (Adopted by author)

E(Rm) *– Expected return of market*

R(f) *– Risk-free return of asset*

SML *– Security Market Line*

β *– Sensitivity of an asset to market returns*

α *– Realized return over expected market risk*

On this figure shown the vertical axis of expected return and the horizontal axis of market risk.

If a stock is lying above the line, then investor may express his/her keenness to purchase such financial asset. Rising demand of such asset will push its price up and resultantly the risk premium will enhance too (Brealey, Myers, Allen 2011, 195).

Short-term bills of the U.S. government are taken as a risk-free financial instrument, since investors consider the risk of default on these securities to be zero, and the yield is guaranteed if the asset is held until maturity. Long-term government bonds

are more profitable, but they also have a higher risk, which is characterized by a higher standard deviation. Thus, due to purchasing such bonds for a period of one year, the investor can receive both income and loss due to price fluctuations. Stocks are considered the most profitable financial instrument; however, this financial instrument also has the highest risk, which is reflected in the standard deviation indicator.

Thus, the relationship between risk and return refers to financial instruments either to low-income and low-risk ones, or, conversely, to instruments that have a high potential for generating profit, but which are also riskier. Therefore, in the classic theory of investing, stocks are considered as risky investments that can bring both high returns and significant losses. Bonds are considered significantly less risky for investment. However, these statements are true for short-term investments also.

2.5 Arbitrage Pricing Theory

The CAPM model is quite widely used, but like any model, it has advantages and disadvantages. The advantage lies in fact that it determines the relationship between risk and return. The disadvantage is that it does not take into account all macro factors what can effect on return.

Based on this disadvantage of the CAPM model, in 1976, Professor Stephen Ross developed the theory of APT (Arbitrage Pricing Theory). This theory has become as an alternative theory of CAPM. (Ross S.A. 1976, 341-360)

Arbitrage is the simultaneous purchase and sale of the same asset at two different prices in two different markets. When executing the arbitration procedure, the investor receives risk-free income from the purchase of an asset at a low price and sale at a higher price. This situation on the market is happening extremely rare.

This theory assumes that stocks with the same sensitivity to the influence of macro factors on them behave the same, except for non-factor risk. Therefore, they should have the same expected returns, otherwise arbitrage opportunities would be expected. But as soon as such opportunities appear, the activity of investors, leads them to disappear. In contrast to the CAPM theory, where only one influence factor

is used - return fluctuation on the portfolio, to determine the future profitability of a stock, the APT model includes consideration of many factors that influence the market and stocks. Among them are indicators such as: the growth rate of industrial productivity, inflation, the difference between long-term and short-term interest rates, the growth rate of the GNP, fluctuations in the exchange rate, etc. Thus, the construction of an Arbitrage Pricing Model is associated with the investor's subjective attitude towards influencing factors. The investor himself decides what factors of influence he will take to build the Arbitrage Pricing Model. The mandatory factor for applying the Arbitrage Pricing model is the presence of a market mechanism that restores equilibrium. Such arbitration should be risk-free, i.e. the risk of an unpredictable outcome should be excluded. (Ross S.A. 1976, 341-360)

So, the return of any financial asset can be represented as a linear function of several factors of influence. As a practical result of the theory, the basic equation of asset pricing is considered. The expectation of a single stock can be expressed by the formula:

$$\bar{r}_i = r_f + \lambda_1 \beta_{i1} + \cdots + \lambda_k \beta_{ik} + \varepsilon_i$$

$\bar{r}_i$ *is equal to stock return expected by investor;*

r_f *is equal to risk-free rate of return;*

β_{ij} *is a stock sensitivity to risk factors;*

λ *is risk factor.*

In the above formula, an asset is characterized by beta indicators, each of which reflects a systematic risk associated with the influence of a specific factor, and residual return Ɛi is the value of a specific risk. (ibid)

Considering several risk factors affecting profitability makes it possible to more accurately forecast changes in the price of an asset and allows to reduce unsystematic risk even without compiling a portfolio. As same as in CAPM Theory, the Arbitrage Price Model has some challenges.

- Uncertainty of factors affecting profitability reduces the effectiveness of APT use, since there is always a risk of not including an important factor;
- The performance of each asset is individual, therefore, the composition and number of risk factors for each asset may be different;
- Factors may not affect profitability immediately, but only after a certain period of time;
- The importance of the importance of influence factors may change over time, which excludes the possibility of forecasting for a long period.

Nevertheless, the arbitrage theory of pricing is based on fewer assumptions than CAPM, which makes it more realistic. The multifactor nature of APT allows us to assess the impact of several factors on the return on assets. (Ross S.A. 1976, 341-360)

2.6 Jensen´s Alpha

The Jensen´s Alpha ratio was developed by Michael Jensen in 1968. He proposed using the Alpha indicator as an indicator of the effectiveness of managers of various investment funds, since it allows us to consider the difference in the return on an investment portfolio over average market returns. Basically, it is the difference between actual and expected return. Jenson´s Alpha coefficient is calculated by the formula:

$$\boldsymbol{\alpha_j = r_f - (r_f + \beta_p * (r_m - r_f))}$$

$\boldsymbol{r_p}$ *- the expected portfolio return;*

$\boldsymbol{r_f}$ *- risk-free rate;*

$\boldsymbol{\beta_p}$ *- a portfolio ratio;*

$\boldsymbol{r_m}$ *- expected market profitability.*

The Jensen´s Alpha coefficient is a measure for evaluating stock performance that considers only the market risk of stocks. The higher the alpha, the greater the portfolio's return relative to the expected rate of return. (Feibel 2003, 190 - 197.)

2.7 Financial Leverage

The financial leverage ratio is used to assess the financial stability of the enterprise in the long term. The financial leverage ratio is the ratio of borrowed funds of the enterprise to capital. The financial debt-to-capital ratio breaks out the financial claims (long-term debt and debt in short-term liabilities) from the firm's total liabilities. (Welch 2009, 823.)

Using borrowed capital, an enterprise forms financial leverage to increase the profitability and profitability of equity. Thus, the level of financial risk of the enterprise is determined by the ratio of financial leverage.

Financial Leverage Ratio = Debt / Equity

Entrepreneurs themselves, as well as investors consider a higher coefficient of financial leverage as an advantage, since a higher coefficient of financial leverage a higher rate of return. Lenders, by contrast, invest in enterprises with a lower financial leverage ratio, since this company is financially independent and has a lower risk of bankruptcy.

As a rule, specialists use a simple method of calculating the value of an enterprise: financial debt - cash and short-term assets. The sum of the market value of equity and financial debt, that is, financial capital at market value, minus cash and short-term holdings is called the enterprise value. (Welch 2009, 823.)

Therefore, the financial leverage ratio can be calculated: at the book value and at the market value of assets. However, the financial leverage ratio is best calculated based on the market value of the assets. For example, if the value of the enterprise is market, and the value of the assets exceeds the carrying amount, then the risk level of the enterprise is lower than when calculating the carrying amount.

Financial leverage ratio = (Long-term liabilities + Short-term liabilities) / Equity

The liabilities of the enterprise usually include the sum of current and long-term liabilities or only long-term liabilities. All payments on liabilities are made from funds before calculating corporate income tax. In the typical publicly traded firm, financial capital is typically about one-half to one-third of the firm's total liabilities. (Welch 2009, 823.) An entity usually has both financial and non-financial liabilities (pension liabilities and payables). As a rule, non-financial liabilities include regular payments, since failure to pay non-financial liabilities has sanctions and can lead to bankruptcy. Thus, non-financial liabilities should also be included in the leverage ratio, since these are marginal costs of non-financial capital. Not knowing the cost of capital on nonfinancial liabilities means that it would not be easy to compute a weighted average cost of capital that includes your nonfinancial liabilities. (Welch 2009, 824.) Therefore, specialists prefer to use the ratio of financial debt to financial capital, since financial debt is the ultimate source of financing. The firm will have to pay the debt out of income, and this is the cost of financial capital requirements. Therefore, the easiest way, in this case, is to calculate the Weighted Average Cost of Capital (WACC).

$$\boldsymbol{WACC} = \frac{\boldsymbol{E}}{\boldsymbol{V}} * \boldsymbol{Re} + \frac{\boldsymbol{D}}{\boldsymbol{V}} * \boldsymbol{Rd} * (\mathbf{1} - \boldsymbol{Tc})$$

***Re** = total cost of equity*

***Rd** = total cost of debt*

***E** = market value of total equity*

***D** = market value of total debt*

***V** = total market value of the company´s combined E+D*

***E/V** = equity portion of total financing*

***D/V** = debt portion of total financing*

***Tc** = income tax rate*

2.8 Empirical Literature Review

Through the study and observation process of related scientific literature, by researcher was found many similar scientific studies on whether there is a relationship between the U.S. presidential election and market fluctuation have already been carried out by different scientists of the world. Some studies have proven this or that connection, and some have denied its presence. For example, looking at the latest elections in 2016, a group of scientists (Blanchard O., Collins C., Jahar-Parvar M., Pellet T., Wilson B., 2018) conducted research on "A year of rising dangerously? The U.S. stock market performance in the aftermath of the presidential election "and published an article in the Journal of Policy Modeling in 2018. The purpose of this study was to consider the movement of stock market prices from the time of the election until the end of 2017 in order to answer the question:" Is the stock market growth justified by an increase in actual and expected future dividends, or did this reflect unhealthy price changes that could change in the future? "

The study included validation of data based on the stock valuation method using the Gordon formula (Gordon, 1959; Gordon & Shapiro, 1956). Thus, using this method, they suggested that, as an identity, one can think of the price of shares as the expected value of future dividends discounted on the real profit that investors will receive for storing a safe asset plus a bonus per share. Through calculations by the Gordon formula, the difference between the ratio of the price of the dividend and the safe rate which is equal to the premium per share minus the expected growth rate of future dividends. Thus, they revealed the fact that the dividend ratio decreased from the time of the election until the end of 2017, while the safe real rate increased. Based on this fact, the researchers concluded that either the expected increase in dividends increased and / or that the premium on shares decreased.

Further, based on a series of expected dividend growth rates, the researchers suggested that actual dividends increased significantly during the reporting period, as did profit. Thus, given the historical relationship between income, dividends and the future growth rate of dividends, they concluded that the forecast for future growth of dividends did not change much during the period under review.

Further in their study, through the application of two methods for measuring the effects of the corporate income tax package, they examined how the expectations and the possible passage of the tax package for 2017 raised expectations for future dividends and thus supported stock prices. (The first method included arithmetic calculation, based in part on estimates of changes in tax revenue from the package made by the Joint Congress Committee on Taxation, adapted to take into account the characteristics of S & P 500 firms; since this approach estimates the effect of the corporate tax package on stock prices at approximately 4%. The second method was based on an econometric exercise based on the relationship between changes in stock prices and changes in the probability of passing the corporate tax package, measured by the coefficient taken from online PredictIt.org rates source, during the investigation period.) According to the results of research through the analysis of non-tax factors it was to reveal that there is a close connection between these phenomena. Given the tax package, econometric estimates suggest its contribution to price increases, since elections range from 2 to 6%.

This means that the actual increase in dividends (9%), as well as the expectation of higher dividends due to the tax package (2-6%), may explain 11-15% of the points of the 25% increase in stock prices from the time of the election until the end of 2017 of the year. The rest should be explained by a lower share premium.

Thus, to reconcile the lower premium with the estimated increase in economic policy uncertainty, the researchers examined the relationship between the stock premium measure and economic policy uncertainty measures for the United States.

So, during this study, the researchers found a historical relationship between the share premium and both indicators of uncertainty. Thus, while political uncertainty increased slightly in the United States, its effect was more than offset by a decrease in uncertainty in Europe. This conclusion provides a plausible explanation of why the stock premium fell slightly after the U.S. election.

Based on this study, scientists concluded that a little more than half of the growth of the S & P 500 can be explained by an increase in actual and expected dividends. The effects of the perceived likelihood that a bill on corporate tax cuts will go through

Congress are 2–6% points of this increase. However, the rest can be explained by a decrease in the premium on shares by less than 100 basis points, which makes it approximately the same as in the mid-2000s. The lower uncertainty in the rest of the world, particularly in Europe, more than compensates for the higher political uncertainty in the United States.

Another research paper written by Abhishek Behl and Shreya Sethi was study the "Impact of elections on stock price graph: a case of U.S. elections". This research was focused on the similar case study as a present thesis, on the impact of U.S. presidential elections on stock market. This research paper was published in International Journal Management Practice in 2016. The main goal of this research was to analyze the impact of the U.S. presidential elections that have taken place from 1980 to 2010, on the stock market performance for eight different industries. In this research work the researchers was studying the abnormality of return related to stock prices and evaluating the uncertainty between the firm's tax policy and stock market, during the period which included nine presidential elections.(Behl A., Sethi S., 2016) As same as this present thesis, their research work was based on a comparative study including the assessment of the effects of pre- and post-election periods. Their investigation was covered the period between 1980 and 2010. Thus, in their research work was also included the empirical analysis based on secondary database, but compared to the present thesis work, they used another online source for data collection. However, in their research work they used secondary data from the Wharton Research Data Services (WRDS), CompStat and Centre for Research in Security Prices (CRSP) sources. An additional, the characteristics of the company was drawn by a four-digit SIC code (standard industrial classification), stock market capitalization, book value of the debt and marginal tax rate (post-financing). Their study refers to non-parametric rates on an annual basis studied by Blouin (ibid.). Other characteristics of the company were recorded on the last date prior to US presidential election in each of the nine periods.

Based on their research result, they found that the industry return data churn out ambiguous results when compared for winning election party. The rate of reaction tends to differ grossly with respect to different industries. Democratic victory

impacts the stock return negatively but in case of Republican victory the result is insignificant. A positive correlation exists between abnormal stock price and firms' marginal tax rate around the day of the election. Based on the conducted research result they claim that there is exist a transitional effect of election, felt in the stock market irrespective of the anticipated outcome of the election.

The empirical findings of their research were highlighting that their results failed to draw a uniform pattern in the returns of selected industries taking into consideration the effect of winning of either of the two parties. The researchers found that manufacturing and mining industries reacted significantly (negative) to the elections when compared to remaining six industries. However, the results of their research were reflected a negative influence on stock returns after and before the election whenever Democratic candidate wins which is not the case with a Republican candidate. Thus, according their research results was proved that a change in government causes stronger effect on the stock market when compared to same party winning again or a re-election. A change in the ruling party affects the market sentiments and raises the expectations of the market players in terms of policy reforms which fluctuate the stock market. According to the result of regression indicates, it was found that abnormality in the stock price returns is also caused by uncertain tax policy, approximated by marginal tax rate.

U.S. presidential elections and the stock market are popular topics for research (Wisniewski, Lightfoot & Lilley, 2012). Since, the interest to investigate such interconnections between the politic and economy and the impact of political changes on economic in general is generally widespread, it is necessary to add in this chapter the most known research works shortly. However, such studies were entirely aimed at studying the various variables by means of analysis, to identify any relationships between the presidential election and stock market indicators. One way or another, all these research works are predictive in nature. For example, the research of Niederhoffer, Gibbs, and Bullock (1970) which was published by Financial Analysts Journal, shown the changes of Dow Jones Industrial Average (DJI) before and after presidential election. The authors were taken under investigation the period between 1900 - 1968 and included eighteen presidential periods. Thus,

through the investigation they were found the one-day, one-week and one-month DJI changes after the events and DJI changes during each of the four years under each president's administration. in this research the authors became with conclusion that the stock market performances during Republican and Democratic administrations have no systematic difference (Niederhoffer, Gibbs & Bullock, 1970). Allvine and O'Neil (1980), in their research paper "Stock market returns and the presidential election cycle: Implications for market efficiency" which was published by Financial Analysts Journal, was focused on interconnection between politics and the market. The researchers were claim that markets generally follow a four-year business cycle that corresponds to the presidential election cycle. Riley and Luksetich (1980), published their research paper "The market prefers Republicans: Myth or reality ", in this research article the author suggested that their results are dependent from which one party becomes the clear winner. Huang (1985), in his research paper "Common stock returns and presidential elections", which was published by Financial Analysts Journal, was found out that the higher average returns during Democratic administrations, in contrast of the widely held belief that the Republican Party is better at business. Moreover, in research paper written by Johnson, Chittenden, and Jensen (1999), through the investigation process was indicated that the returns to small-cap stocks are substantially higher during Democratic administrations.

Another research paper written by Santa-Clara and Valkanov (2003), which was published by the Journal of Finance, was taken under investigation the period between 1927 and 1998. Their research topic was "The presidential puzzle: Political cycles and the stock market". Thus, through the investigation the authors in this research paper were found out that the stock market's excess return is higher under Democratic than Republican presidencies and the difference is from higher real stock returns and lower real interest rates but is not explained by business-cycle variables and is not concentrated around election dates. The researchers Goodell and Bodey (2012), were published their research paper named as "Price-earnings changes during US presidential election cycles: Voter uncertainty". Through the investigation process the authors found out that as the likely winning candidate becomes obvious, the uncertainty diminishes. Similarly, and markets reacts unfavourably, and stocks

become undervalued (lower P/E ratio). Another research paper was written by Goodell and Vähämaa (2013) on topic "U.S. presidential elections and implied volatility: The role of political uncertainty" which was published by Journal of Banking & Finance. Through the investigation process in this research paper by authors were found out that the presidential election process creates market uncertainty as investors develop expectations regarding potential winners and future macroeconomic policy.

2.9 Hypothesis development

Based on current knowledge gained during study of theoretical background and scientific literature review the author distinguished 2 hypotheses for the further analysis:

- *H1: The elections won by Republicans have impact on stock market risk - return dynamics;*
- *H2: The elections won by Democrats have impact on stock market risk - return dynamics.*

3 Methodology

A research methodology is an important phase for any research activity. The research methodology is a multi-stage process of constructing the research itself and dividing it into stages to formulate aims and objectives that the research should solve and how this research will be carried out by the author. The research methodology indicates how the research is conducted in a scientific, structured, and organized fashion. (Kothari 2004, 8-9.) As part of this process, the researcher gives a detailed description of the method by which he is going to achieve the aims of this specific research. Thus, the methodology section demonstrates to the reader a research approach, a study method, a method of collecting data, a method of analyzing data used in this specific study.

3.1 Research design

This specific research is based on quantitative data. In this research the author assumes positivism as a philosophical stance, as the study focuses on quantifiable observations and uses statistical data analysis. Consequently, the empirical evidence in the form of qualitative data is used to test the research in line with the assumptions of positivism research philosophy. (Saunders, Lewis & Thornhill 2006,103-104) Positivism research philosophy takes into account that the researcher must be focused on careful observation of the objective reality. In particular, the thesis used deductive research approach based on quantitative data taken from the financial statements of fifty U.S. companies and from S&P 500 stock market. The deductive approach allows to test hypotheses, to have a structured methodology, to operationalize concepts in order to measure them quantitatively, and allows reductionism and generalization. (Saunders et al. 2009, 124-125.) Thus, the deductive approach takes a start from theory and gradually turns into a hypothesis based on data collection process. The deductive approach assumes that the initial theory with underlying research hypothesis will be either confirmed or disconfirmed.

The research is explanatory by its nature (Saunders, Lewis & Thornhill 2006, 134-135). The author used the explanatory purpose of the research because in this particular thesis matter to determine the relationship between certain variables. In order to answer research questions, different variables are identified and analyzed based on the obtained data. In this thesis, the author used a longitudinal time horizon allowing to study the dynamics of the phenomena over a period of four presidential elections. Longitudinal studies help determine and describe the frequency of occurrence of the phenomenon and explain how these phenomena can be associated with certain factors over a prolonged period. Thus, this study increases the quality and credibility of the results by study of periodic nature of a phenomenon at defined timeline, as a "movie" showing the dynamics instead of a “snapshot” limitation of a cross-sectional study. This research is build based on Casual study technique, in order to clarify and explain the casual relationship between the variables (the political changes, changes on stock market and changes in financial annual reports according the exact historical time period 2003-2017, during of three years (pre- during and year after presidential elections) in each of the four seasons.).

Therefore, by author used three principles for investigation to gather preliminary information through the secondary data: The Literature review, historic data of companies from financial annual reports and the historical data from S&P 500 stock market records. An archival research strategy is used in this thesis, as the research data is based on historical records of top 50 listed U.S. companies from different industrial sectors.

3.2 Data collection

The research is based on secondary data collection. The principal advantage of the secondary data is that it is more suitable when analysing a large amount of quantitative data over time with high precision, and specificities (Saunders et al. 2009, 256). Thus, all financial data which are used for calculation current variables in this thesis, were collected from official secondary sources and including the actual numerical financial information. The historical data of changes in companies stock prices and the dynamics of the market index was taken from S&P 500 stock market records. In addition, in this research was used the secondary data taken from annual reports of top fifty biggest U.S. companies from different industrial sectors of economy in order to check the periodical changes and determine and measure the Risk Return, to identify the probability that the actual return on investment was differentiated as compare to the expected return. Thus, all selected fifty companies' shares were traded on the S&P 500 stock market.

All secondary data was taken for four previous periods of presidential election in U.S. The time scale of collected data include period from 2003 till 2017 within interval between each period of one year. Therefore, each one of those four periods were divided on: the year of pre-election campaign; the election year; and the post-election year period. The data in total cover 12 years of observations in this current research. Thus, all collected data used in this research are regarded as accurate and reliable.

This research was built on numerical data collection. Therefore, all variables are coefficients which were preliminarily calculated based on data taken from S&P 500

stock market and in addition some data from the annual reports of companies which are mainly taken from income statement and balance sheet.

Although, in order to calculate next key variables, the author collected data for current investigation from S&P 500 stock market daily stock closing price and S&P 500 stock market index, for each of 50 U.S. company. This data was taken for four periods and included:

- First period (2003, 2004, 2005);
- Second period (2007, 2008, 2009);
- Third period (2011, 2012, 2013);
- Forth period (2015, 2016, 2017).

Table 2 Variables description (Adapted by the author)

Type of variable	Variable	Variable´s label	Formula/Definition	Source
Dependent	Daily Stock Return		The relative gain or loss of investment of a stock per day. $\frac{p_1 - p_0}{p_0}$ The stock price on a day minus the stock price on a previous day of a company divided by previous day price of it.	S&P 500
Dependent	Annualized Stock Return		Annualized Stock Return = (1+Daily Stock Return)^{365} -1	S&P 500
Dependent	Daily Market Return		The relative gain or loss of the index value per day. $\frac{i_1 - i_0}{i_0}$ The index value on a day minus index	S&P 500

			value on a previous day divided by index value on previous day.	
Dependent	Annualized Market Return		Annualized Market Return = (1+Daily Market Return)^{365} -1	S&P 500
Dependent	Total Daily Risk	SD	The deviation of the firm share price from its average price. It shows scatterings of stock prices around the mean value.	S&P 500
Dependent	Total Annualized Risk		(Total Daily Risk) times square root of 365 days	S&P 500
Dependent	Total Market Risk		The dispersion of the index value from the mean value.	S&P 500
Dependent	Total Annualized Market Risk		(Total Daily Market Risk) times square root of 365 days	S&P 500
Dependent	Systematic Risk	Beta	The volatility of the stock return of firm in response to the changes in the market return (specific index value).	S&P 500
Dependent	Total Systematic Risk		Beta times Total Annualized Market Risk	S&P 500
Dependent	Total Unsystematic Risk		Total Annualized Risk minus Total Systematic Risk Total Unsystematic Risk represents the residual risk	S&P 500
Dependent	Jensen´s Alpha	JensenAlpha	The measure of over- or underperformance	S&P 500

			of the firm stock return in comparison to the minimum expected return derived by subtracting the cost of capital as determined by CAPM or APT from the actual return observed of firms.	
Dependent	Return to Risk Ratio Company	RTR	Return to Risk Ratio measuring how much return on investment provided per unit of risk taken.	S&P 500
Dependent	Return to Risk Rate Market	Risk/Reward Ratio	To define the expected reward what can be earn by investor, for every dollar. This ratio measures risks on an investment, in order to compare the expected returns of an investment with the amount of risk investors must undertake to earn these returns.	S&P 500
Dependent	CAPM	Expected Return	CAPM measures Expected Return of a stock. It is the gain or loss that the investor expects from an investment with known or expected rate of returns. It´s calculated by multiplying the potential results by the chances of their occurrence, and then summing these results.	S&P 500

Independent	Debt		Debt is a certain loan borrowed by one party from another and executed through a debt agreement. A debt agreement is an arrangement of obligations between a borrower and a lender.	Annual reports of companies
Independent	Equity		represents the book value of a company.	Annual reports of companies
Dependent	D/E (Leverage Ratio)		This ratio is used to evaluate a company's financial leverage.	Annual reports of companies
Independent Dependent	Effective Corporate Tax		The ratio of actual amount of corporate tax paid by a company by the profit before tax, in a given year.	Annual reports of companies
Independent	Profit After Tax		Profit after tax (net profit after tax) this is the profit of the enterprise after deduction of all income taxes. This amount is the final, residual amount of profit received by the organization.	Annual reports of companies
Dependent	Unlevered/Asset Beta	Unlevered Beta (asset beta)	Measures the market risk of a company without the influence of debt.	Annual reports of companies, S&P 500
Dependent	Debt Tax Shield		It is the market method in order to measure the credit volatility of a corporate bond. It is used for comparing credit risk across a	Annual reports of companies

			wide range of bonds.	
Dependent	Total Unlevered Systematic Risk	Unlevered Cost of Capital	It is the implied rate of return a company expects to earn on its assets, without the effect of debt.	Annual reports of companies, S&P 500
Dependent	Total Debt	Natural Log Debt	The natural logarithm of total debt	Annual reports of companies
Dependent	Debt to Capital ratio	V=D+S	A measurement of a company's financial leverage. Debt to Capital ratio calculated by dividing a company's total debt by its total capital, which is total debt plus total shareholders' equity.	Annual reports of companies
Dependent	Return on Equity	ROE	ROE is a measure of firm-level profitability calculated by dividing of operating profit (earnings before interest, tax, depreciation, and amortization), to shareholders' equity or net asset value of net worth of firms.	Annual reports of companies
Dependent	Return on Capital Employed	ROCE	Financial ratio which determines a company's profitability and the efficiency the capital is applied.	Annual reports of companies
Dependent	Assets Book Value		The value of an asset according to its balance sheet account balance. Assets Book Value is equal to Total Value	Annual reports of companies

			of an Asset minus Depreciation and minus Other Expenses	
Independent	Total Asset	LnAssets	The natural logarithm of total assets	Annual reports of companies
Dependent	Duration Times Spread	LnDTS	The natural logarithm of Duration Times Spread	Annual reports of companies

Table 3 The list of companies (Adapted by the author)

Apple Inc (AAPL)	**Kellogg Company**
AT&T Inc	**Lockheed Martin Corporation**
Boeing (BA)	**Marriot International Inc.**
Caterpillar Inc. (CAT)	**Mattel Inc.**
Cisco Systems Inc. (CSCO)	**McDonald's Corporation**
Coca-Cola Company (KO)	**MetLife Inc. (MET)**
CSX Corporation (CSX)	**Microsoft Corporation**
The Walt Disney Company (DIS)	**NIKE Inc. (NKE)**
eBay Inc. (EBAY)	**Northrop Grumman Corporation**
Eli Lilly and Company (LLY)	**Pepsi Co (PEP)**
Exelon Corporation (EXC)	**Pfizer (PFE)**
Exxon Mobil Corporation	**Quaker Chemical Corporation**
FedEx Corporation	**Ryder System Inc. (R)**
Ford Motor Company	**Starbucks Corporation**
Freeport-McMoRan	**Texas Instruments Incorporated**
General Electric	**The Kroger Co (KR)**
General Dynamics Corporation	**The Procter & Gamble Company**
The Goodyear Tire & Rubber Company	**Time Warner Inc.**
Harley-Davidson	**Union Pacific Corporation**
Honeywell	**United States Steel Corporation (X)**
The International Business Machines Corporation	**UnitedHealth Group Incorporated**
International Paper Company	**V.F. Corporation (VFC)**
Johnson & Johnson	**Verizon Communications Inc.**
Johnson Controls International plc.	**Weyerhaeuser Company**
JP Morgan Chase&Co.	**Whirlpool Corporation**

3.3 Data Analysis

In current research work the analysis of all collected data was carried through SPSS Statistics software. This research is including several types of analysis such as a Descriptive statistics analysis, Correlation analysis and Regression Multivariate Ordinary Least Square (OLS) Analysis. The current research is divided for four research periods:

- The first one period includes the 55th presidential election which took a place in 2004, when the Republicans candidate George W. Bush won the elections. Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2003 pre-election year; 2004 election year and 2005 post-election year);

- The second period includes the 56th presidential election which took a place in 2008, when the Democratic candidate Barak Obama won the elections. Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2007 pre-election year; 2008 election year and 2009 post-election year);

- Third period includes the 57th presidential election which took a place in 2012, when the Democratic candidate Barak Obama won the elections. Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2011 pre-election year; 2012 election year and 2013 post-election year);

- Fourth period includes the 58th presidential election which took a place in 2016, when the Republican candidate Donald Trump won the elections. Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2015 pre-election year; 2016 election year and 2017 post-election year).

Descriptive statistics

The aim of descriptive statistic is to interpret the summarized data, to present the main facts about the research results and to identify the characteristics of the observed phenomenon (Adams & Khan 2014, 171). Descriptive statistics are used to summarise, and depict variables analysed in the study. Descriptive statistics includes inside not a very deep analyses of the data, it is basically indicating how does the preliminary results of data looks like. In current research work the descriptive statistics analyses were carried out four times, one time per each of four research periods. Thus, in this research work the descriptive statistics analyses is representing all numerical data results visually in each of four tables. By researcher the descriptive statistic analyse was provided four times and including four spread shits. Descriptive statistics analyses include eighteen independent variables in strict order, which are repeated four times (one period - one descriptive statistics analyses, same variables in same strict order). The variables are not classified as a dependent of independent, because in the descriptive analyse such a classification not needed.

Table 4 The abbreviation of variables used in SPSS analyse and its explanation

Variable´s label	Variable
AnnulRetFirm	Annualized Return of Firm
RETToRISKFirm	Return to Risk Firm
MarktAnnualRET	Market Annualized Return
CAPMRet	Capital Pricing Assets Model Return
JenAlpha	Jensen´s Alpha
RETtoRISKMarket	Return to Risk Market
ToTAnnualRiskFirm	Total Annualized Firm Risk
TOTAnnualRISKMark	Total Annualized Market Risk
ToTSysRisk	Total Systematic Risk (Beta)
ToTUnsysRisk	Total Unsystematic Risk
D2E	Debt to Equity
NLofDebt	Total Dept
ToTUnleverSysRisk	Total Unlevered Systematic Risk (Unlevered Beta)

Variable´s label	Variable
ROE	Return on Equity
ROCE	Return on Capital Employed
ETR	Effective Tax Rate
DTS	Duration Times Spread
AssetsBookValue	Assets Book Value

The following variables provided by five key indicators:

- Mean - is the arithmetic average of the sample values;
- Standard deviation- is a statistic that reflects inconsistency of the data;
- Range-indicates the difference between the highest and the lowest values.

Correlation analyses

The aim of correlation analyse is to exam the degree of relationship and associations between the studied variables. Thus, correlation between variables occurs when one of the variables decreases or increases relative to the other variable. The coefficient of correlation (r) can range between r = ±1. (Adams & Khan 2014, 180). Thus, when the correlation coefficient (r) between of two studied variables rise up it indicates a positive correlation between of them, if the correlation coefficient is tending down it´s showing negative relationship between the variables. The correlation between the variable's determinate by significance of value, higher the significance lowers the confidence of value. In this research the correlation is significant if the level is consisting between the 0.01 and the 0.05, otherwise the correlation cannot be computed because at least one of the variables is constant. However, this method of analyse indicates only the relationships between variables without any of description of correlation nature itself. The correlation statistics do not include cause and effect relationship; therefore, the correlation analyse was done only once per each of four research periods.

Through the correlation analyses, researcher used same variables in same strict order (table 4) as in a descriptive statistics analysis. During this research the correlation analyse was repeat four times - once for each of four periods. Thus, each

of four tables shows the numerical data of a correlation between the variables, which can be defined as explanatory, if the probability of correlation with the dependent variables becomes high.

Regression analysis

A regression analysis method is often used by researchers due to this method allows to analyse relationships between dependent and independent variable. The Multivariate ordinary least square (OLS) regression model underscores changes in the explained/dependent/predicted/influenced variable as a result of explanatory/independent/predicting/influencing variables. Thus, this regression model (OLS) provides a possibility of the dynamic's prediction. By another words, it gives a possibility for researcher to estimate the coefficients of variables and predict the response. The virtue associated with the OLS regression model is that it highlights a systematic, pre-determined, theoretically backed-up and precise relationship between dependent and independent variables. (Pedace 2013; Salkind 2010, 1268.). However, cause by independent variables could be many and the effective could be a one variance, therefore the output of the regression is based on the Multivariate ordinary least square (OLS) regression analyses. In this research, the author provides the two Multivariate ordinary least square (OLS) regressions models in each of four research periods, in order to analyse the relationship of multiple variables. The regression model 1 analyses the relationship between the independent variables (table 4) and dependent variable Annualized Firm Return (AnnulRetFirm). The regression model 2 analyses the relationship between the independent variables (table 4) and dependent variable Risk Adjusted Annualized Return (RETToRISKFirm). Each one of two OLS regressions analysis provided by researcher was aimed to identify the significant relationships which can be used to make a response prediction. Thus, the regression analyses can be used for ascertaining the predicted values of dependent variables. (Kothari 2004, 142.) This method provides enhances validity and reliability of the research endeavours. Each of two OLS models applies a prespecified regression function to the sample data, with the use of single response variable that has been recorded on an interval scale. The regression coefficient illustrates the forecast of changes in the dependent variable with the change in the independent. In this research the confidence value of

independent variables is measured by level of significance which is remaining between the 1% and10%. Thus, more higher significance number lower the confidence of variable value.

The analysis of variance is called ANOVA. However, the output of regressions results analyses is also including the ANOVA founding's: R Square, Durbin-Watson Test and Number of Observations.

Thus, R-Square and Durbin-Watson Test could be used to determine the quality of calculation analyses. R Square is the explanatory power of the model. Durbin-Watson test is shows that there is the order correlation, what means as long as Durbin-Watson test is between 1.75 and 2.25 it is fine. Dublin-Watson test indicates the quality of calculations and that the independent variables are well defined. The Number of Observations gives for the reader the information how many times the information was processed through the investigation process. In this research the Number of Observations in each of two regression analyses models through four research periods is shows 150, that means that each period the data of 50 U.S companies were processed 3 times.

4 Research Findings and Results

In this chapter, the researcher will provide results of the research analysis. Thus, this chapter is including presentation and interpretation of results collected through SPSS. The chapter will include three subchapters: descriptive statistics results, correlation results and OLS regression analysis results. The descriptive statistics subchapter will provide the descriptive statistics result of current research. The correlation results subchapter will represent the findings of the correlation analysis, which highlights the relationships between the variables. The OLS regression analysis results subchapter shows the outcome of association between dependent and independent variables in two models.

4.1 Descriptive Statistics results

The aim of descriptive statistic is to interpret the summarized data, to present the main facts about the research results and to identify the characteristics of the

observed phenomenon (Adams & Khan 2014, 171). Basically, the descriptive statistic shows how does the preliminary results of the date look like. The descriptive statistics includes inside not a very deep analyses of the data, it is basically indicating how does the preliminary results of data looks like. Thus, the descriptive statistics do not include cause and effect relationship, therefore the descriptive analyse was done only once per each of research period.

In this research work the descriptive statistics analyses are representing all numerical data results visually in each of four tables (tables: 5, 6, 7, 8). This four tables (tables: 5, 6, 7, 8) exhibit descriptive statistics of variables. Descriptive statistics analyses include eighteen independent variables in strict order, which are repeated four times (one period - one descriptive statistics analyses, same variables in same strict order). In order to understand the abbreviation used by researcher, the reader can follow the table 3 and table 4, which are representing the description of each used variable. On tables 5, 6, 7 and 8, variables are not classified as a dependent of independent, because in the descriptive analyse such a classification not needed.

Tables 5, 6, 7, 8 are representing the mean, standard deviation, the minimum and maximum values and the mean and the range between them during the test period. The mean represents the average value, standard deviation shows how consistent the data is and how much is a variation for the information. A maximum is a maximum annualized return in all the data. The minimum is a minimum annualized return in all the data. Test period of table 5 providing the numerical results for first researched period. The Number of Observations (N) here (Table 5) and on the other researched periods(Tables 6, 7, 8), provides the numerical information (150), which shows that through the first test period data of 50 U.S companies were processed 3 times (50 companies; 3 years). In current research work the descriptive statistics analyses were carried out four times, one per each research period. By researcher the descriptive statistic analyse was provided four times and including four spread shits.

Under first period (Tab. 5) the researcher implies the period which includes the 55th presidential election (2004), when the Republicans candidate George W. Bush won

the elections (1ElectionRepublicans). Thus, under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years (2003 pre-election year; 2004 election year and 2005 post-election year).

Under second period (Tab. 6) the researcher implies the period which includes the 56th presidential election (2008), when the Democratic candidate Barak Obama won the elections (1ElectionDemocrats). Therefore, under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years (2007 pre-election year; 2008 election year and 2009 post-election year).

Under third period (Tab. 7) the researcher implies the period which includes the 57th presidential election (2012), when the Democratic candidate Barak Obama won the elections in second time (2ElectionDemocrats). Thus, under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years (2011 pre-election year; 2012 election year and 2013 post-election year).

Under fourth period (Tab. 8) the researcher implies the period which includes the 58th presidential election (2016), when the Republicans candidate Donald Trump won the elections (2ElectionRepublicans). Thereby, under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years (2015 pre-election year; 2016 election year and 2017 post-election year.

Table 5 Descriptive statistic results of period 1

Variables	N	Mean	Std. Deviation	Range	Minimum	Maximum
AnnulRetFirm	150	0.406	0.701	5.159	-0.579	4.580
RETToRISKFirm	150	1.204	1.690	11.355	-1.972	9.383
MarktAnnualRET	150	0.212	0.172	0.979	-0.168	0.811
CAPMRet	150	0.205	0.177	0.796	0.014	0.811
JenAlpha	150	0.202	0.651	5.028	-0.642	4.387
RETtoRISKMarket	150	1.192	0.714	2.901	-0.791	2.110
ToTAnnualRiskFirm	150	0.288	0.099	0.620	0.143	0.763
TOTAnnualRISKMark	150	0.157	0.043	0.266	0.124	0.390
ToTSysRisk	150	0.153	0.063	0.395	-0.005	0.390
ToTUnsysRisk	150	0.135	0.064	0.395	0.000	0.395
ToTUnleverSysRisk	150	0.076	0.061	0.552	-0.087	0.465
D2E	150	2.607	45.739	689.017	-460.406	228.611
NLofDebt	150	9.675	1.598	8.785	5.118	13.903
ROE	150	0.364	2.064	25.603	-0.384	25.219
ROCE	150	0.064	0.049	0.237	-0.055	0.183
ETR	150	0.261	0.501	6.341	-1.651	4.690
DTS	150	11069.638	50946.849	538269.877	-207679.825	330590.053
AssetsBookValue	600	119461.797	291415.908	2533321.000	279.000	2533600.000

Table 6 Descriptive statistic results of period 2

Variables	N	Mean	Std. Deviation	Range	Minimum	Maximum
AnnulRetFirm	150	0.388	1.310	11.458	-0.821	10.637
RETToRISKFirm	150	0.724	1.897	15.000	-1.852	13.148
MarktAnnualRET	150	0.029	0.368	1.306	-0.441	0.866
CAPMRet	150	0.065	0.412	2.002	-0.768	1.234
JenAlpha	150	0.323	1.127	10.727	-0.614	10.113
RETtoRISKMarket	150	0.288	0.936	3.937	-0.893	3.043
ToTAnnualRiskFirm	150	0.501	0.239	1.053	0.138	1.191
TOTAnnualRISKMark	150	0.340	0.125	0.402	0.192	0.595
ToTSysRisk	150	0.339	0.195	0.983	-0.073	0.911
ToTUnsysRisk	150	0.162	0.098	0.621	0.046	0.667
ToTUnleverSysRisk	150	0.135	0.148	1.448	-0.824	0.624
D2E	150	2.717	7.322	96.712	-48.092	48.620
ROE	150	0.166	0.335	3.429	-2.324	1.105
ROCE	150	0.065	0.075	0.691	-0.448	0.243
ETR	150	0.237	0.299	2.776	-1.652	1.124
DTS	150	12578.196	85801.416	1183520.002	-670596.310	512923.692
AssetsBookValue	150	10.499	1.448	8.639	5.953	14.593
Valid N (listwise)	150			0.000		

Table 7 Descriptive statistic results of period 3

Variables	N	Mean	Std. Deviation	Range	Minimum	Maximum
AnnulRetFirm	150	0.332	0.412	2.938	-0.591	2.348
RETToRISKFirm	150	1.283	1.453	8.191	-1.995	6.197
MarktAnnualRET	150	0.249	0.185	0.893	0.040	0.933
CAPMRet	150	0.245	0.203	0.767	-0.016	0.751
JenAlpha	150	0.088	0.360	2.677	-0.662	2.016
RETtoRISKMarket	150	1.706	1.402	4.171	0.142	4.313
ToTAnnualRiskFirm	150	0.297	0.114	0.596	0.116	0.712
TOTAnnualRISKMark	150	0.191	0.066	0.238	0.133	0.372
ToTSysRisk	150	0.193	0.108	0.587	-0.019	0.568
ToTUnsysRisk	150	0.104	0.055	0.405	0.037	0.442
ToTUnleverSysRisk	150	0.372	0.409	3.179	-1.959	1.220
D2E	150	9.413	80.779	998.772	-8.567	990.205
ROE	150	0.693	5.736	70.829	-0.444	70.385
ROCE	150	0.077	0.048	0.248	-0.011	0.237
ETR	150	0.464	1.709	20.044	-1.329	18.714
DTS	150	26330.844	80882.554	822142.095	-217069.446	605072.649
Valid N (listwise)	150					

Table 8 Descriptive statistic results of period 4

Variables	N	Mean	Std. Deviation	Range	Minimum	Maximum
AnnulRetFirm	150	0.289	0.979	11.574	-0.762	10.811
RETToRISKFirm	150	0.985	1.773	14.100	-2.377	11.724
MarktAnnualRET	150	0.152	0.119	0.304	-0.003	0.300
CAPMRet	150	0.139	0.150	0.870	-0.069	0.801
JenAlpha	150	0.150	0.943	11.224	-0.829	10.395
RETtoRISKMarket	150	1.554	1.557	3.750	-0.016	3.734
ToTAnnualRiskFirm	150	0.276	0.130	0.860	0.110	0.970
TOTAnnualRISKMark	150	0.143	0.046	0.191	0.080	0.272
ToTSysRisk	150	0.134	0.081	0.462	-0.022	0.440
ToTUnsysRisk	150	0.142	0.098	0.530	0.039	0.569
ToTUnleverSysRisk	150	0.017	0.439	6.249	-5.156	1.094
D2E	150	3.799	11.561	162.696	-61.077	101.619
ROE	150	0.246	0.743	8.176	-2.436	5.740
ROCE	150	0.065	0.068	0.565	-0.259	0.305
ETR	150	0.223	0.378	2.870	-1.424	1.445
DTS	150	24952.173	99421.108	1028483.427	-301393.279	727090.148
AssetsBookValue	150	151892.973	362249.996	2532920.000	680.000	2533600.000
Valid N (listwise)	150					

4.2 Correlation results

The aim of correlation analyse is to exam the degree of relationship and associations between the studied variables. Thus, correlation between variables occurs when one of the variables decreases or increases relative to the other variable. This method of analyse indicates only the relationships between variables without any of description of correlation nature itself. The correlation statistics do not include cause and effect relationship therefore, the correlation analyse was done only once per each of four research periods.

Through the correlation analyses, researcher used same variables in same strict order (Tab. 4). Under the investigation researcher took accounting indicators, market indicators, mixed indicators and risk variables. During this research the correlation analyse was repeat four times - once for each of four periods.

Table 9 represent the correlation results of the 55th presidential election (2004), when the Republicans candidate George W. Bush won the elections (1ElectionRepublicans). Where under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2003 pre-election year; 2004 election year and 2005 post-election year);

Table 10 represent the correlation results of the 56th presidential (2008), when the Democratic candidate Barak Obama won the elections (1ElectionDemocrats). Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2007 pre-election year; 2008 election year and 2009 post-election year);

Table 11 represent the correlation results of the 57th presidential election (2012), when the Democratic candidate Barak Obama won the elections (2ElectionDemocrats). Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2011 pre-election year; 2012 election year and 2013 post-election year);

Table 12 represent the correlation results of the 58th presidential election (2016), when the Republican candidate Donald Trump won the elections

(1ElectionRepublicans). Under the investigation of this period the researcher was study the data of fifty U.S. companies for 3 years. (2015 pre-election year; 2016 election year and 2017 post-election year).

In this research, all these four tables (Tab.9, 10, 11, 12) shows the pairwise correlation between all the variables (Tab. 4) used in same strict order. The correlation between the variable's determinate by significance of value, higher the significance lowers the confidence of value. In this research the correlation is significant if the level is consisting between the 0.01 and the 0.05, otherwise the correlation cannot be computed because at least one of the variables is constant. Thus, under consideration by researcher was taken correlations only with significance levels of 0.01% and 0.05% were considered. Visually, each of four tables shows the numerical data of a correlation between the variables, which can be defined as explanatory, if the probability of correlation with the dependent variables becomes high. The level of significance value is shown by tales, one tale (*) is equal to 0,05 significant level and two tales (**) is equal to 0,01 significant level. By other words one tale (*) shows that the correlation is significant at 5% and two tales (**) shows that the correlation is significant at 1%.

Based on the results of the correlation in Table 9 (1ElectionRepublicans), it can be assumed that the correlation between Annualised Return to Firm and the Return to Risk Firm shows that they are 94,6 % (946**) corelated. One present level of significance means that there is one percent chance of the results influenced by sampling fluctuation, so there is 1% chance factor. Thus, it means that 1% significance implies 99% confidence. With 99% of confidence the correlation between Annualised Return to Firm and the Return to Risk Firm is 94,6 % close to 99%, therefore we suggest that the amount of correlation between those variables are very high. The reader can see (Tab. 9), that most of the correlation results has high significance indeed.

In Table 9 one tale (*) level of significance value is rare. However, the correlation between Total Systematic Risk and Jensen´s Alpha is equal to (206*), that is basically mean that these two variables are significant. We can suggest that with confidence

of 95% the significant level of value is close to 5%. Thus, the relationship between those variables is exists.

The correlation between the variables Return on Capital Employed (ROCE) and the Annualised Return to Firm is negative (-169*). That's basically means that correlation between those variables is negative. Return on Capital Employed (ROCE) is accounting measure of performance and Annualised Return to Firm is a stock market measure of performance. Thus, its mean that more the accounting measure improves, lower is the market performance. Although, there is negative relationship between those variables it´s marked by one tale (*); therefore, it can be assumed here that the correlation is negative and significant at 5 %. The researcher can suggest that with 95% of confidence that the correlation exist, and it is negative.

Based on the results of the correlation in Table 10 (1ElectionDemocrats), it can be assumed that the correlation between Annualised Return to Firm and the Return to Risk Firm shows that they are 94,1 % (941**) corelated as same as in previous Table 9 (946**) So, it means that in both of periods, the relationship between Annualised Return to Firm and the Return to Risk Firm is very strong, due to the fact that the percent of confidence is close to 99%. in Table 10 the reader can see that as same as in previous Table 9, most of the correlation results has a high significance. In Table 10, the correlation between Annualised Return to Firm and Total Annualized Firm Risk is significant, that is basically mean that these two variables are on 5% significant with 95% confidence, this result is lower compere to Table 9, thus, they are affecting to each other.

Based on the results of the correlation in Table 11 (2ElectionDemocrats) it can be assumed that the correlation between Annualised Return to Firm and the Return to Risk Firm is very high. The result shows 92,8 percent (928**). Therefore, it could be suggested that with 99% of confidence these variables are significant on 1%. The Total Dept and Annualised Return to Firm, in Table 11, shows the negative correlation. That means that there is not any relationship between of those variables and they are not influencing on each other anyhow. However, the result of relationship between the Annualised Return to Firm and Total Unsystematic Risk

variables shows by 95% of confidence that they are significant on 5%. These variables are correlated.

Table 9 Correlation analyse results first period (1ElectionRepublicans)

	x1	x2	x3	x4	x5	x6	x7	x8	x9	x10	x11	x12	x13	x14	x15	x16	x17	x18
x1	1	,946**	,322**	,397**	,968**	,335**	,510**	,267**	,396**	,402**	,423**	0.049	-,165*	0.022	-,169*	-0.049	0.005	0.039
		0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.555	0.043	0.792	0.038	0.551	0.956	0.640
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x2	,946**	1	,339**	,365**	,919**	,364**	,359**	,268**	,315**	,248**	,359**	0.051	-,163*	-0.026	-0.120	-0.052	-0.003	0.053
	0.000		0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.002	0.000	0.531	0.046	0.754	0.144	0.527	0.967	0.520
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x3	,322**	,339**	1	,886**	0.106	,967**	,371**	,910**	,540**	0.042	,264**	-0.124	-0.018	0.084	-,193*	-0.075	-0.041	0.067
	0.000	0.000		0.000	0.196	0.000	0.000	0.000	0.000	0.611	0.001	0.130	0.829	0.306	0.018	0.359	0.616	0.414
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x4	,397**	,365**	,886**	1	0.155	,862**	,584**	,797**	,809**	0.107	,384**	-,217**	0.008	,240**	-,271**	-0.054	0.015	0.075
	0.000	0.000	0.000		0.057	0.000	0.000	0.000	0.000	0.192	0.000	0.008	0.924	0.003	0.001	0.515	0.851	0.362
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x5	,968**	,919**	0.106	0.155	1	0.127	,390**	0.072	,206*	,404**	,351**	0.111	-,180*	-0.042	-0.109	-0.038	0.001	0.021
	0.000	0.000	0.196	0.057		0.122	0.000	0.384	0.011	0.000	0.000	0.176	0.028	0.613	0.185	0.642	0.994	0.797
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x6	,335**	,364**	,967**	,862**	0.127	1	,355**	,800**	,506**	0.051	,253**	-0.121	-0.031	0.084	-,184*	-0.006	-0.024	0.004
	0.000	0.000	0.000	0.000	0.122		0.000	0.000	0.000	0.538	0.002	0.141	0.704	0.307	0.024	0.944	0.771	0.965
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x7	,510**	,359**	,371**	,584**	,390**	,355**	1	,338**	,781**	,784**	,408**	-,181*	-,217**	,405**	-,223**	-0.054	-0.087	0.005
	0.000	0.000	0.000	0.000	0.000	0.000		0.000	0.000	0.000	0.000	0.027	0.008	0.000	0.006	0.509	0.287	0.948
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x8	,267**	,268**	,910**	,797**	0.072	,800**	,338**	1	,447**	0.083	,207*	-0.115	0.006	0.070	-,196*	-,172*	-0.067	,222**
	0.001	0.001	0.000	0.000	0.384	0.000	0.000		0.000	0.312	0.011	0.160	0.940	0.392	0.016	0.035	0.412	0.007
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x9	,396**	,315**	,540**	,809**	,206*	,506**	,781**	,447**	1	,224**	,472**	-0.150	-0.012	,275**	-,248**	-0.071	0.024	0.021
	0.000	0.000	0.000	0.000	0.011	0.000	0.000	0.000		0.006	0.000	0.067	0.886	0.001	0.002	0.391	0.772	0.803
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x10	,402**	,248**	0.042	0.107	,404**	0.051	,784**	0.083	,224**	1	,167*	-0.133	-,327**	,359**	-0.101	-0.015	-0.160	-0.012
	0.000	0.002	0.611	0.192	0.000	0.538	0.000	0.312	0.006		0.041	0.106	0.000	0.000	0.219	0.858	0.050	0.884
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x11	,423**	,359**	,264**	,384**	,351**	,253**	,408**	,207*	,472**	,167*	1	-0.028	-,398**	-0.142	,203*	0.000	-0.090	0.037
	0.000	0.000	0.001	0.000	0.000	0.002	0.000	0.011	0.000	0.041		0.732	0.000	0.083	0.013	0.999	0.272	0.655
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x12	0.049	0.051	-0.124	-,217**	0.111	-0.121	-,181*	-0.115	-0.150	-0.133	-0.028	1	0.051	-,760**	0.061	0.094	0.041	0.010
	0.555	0.531	0.130	0.008	0.176	0.141	0.027	0.160	0.067	0.106	0.732		0.532	0.000	0.461	0.252	0.615	0.906
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x13	-,165*	-,163*	-0.018	0.008	-,180*	-0.031	-,217**	0.006	-0.012	-,327**	-,398**	0.051	1	-0.001	-,295**	-0.135	,352**	0.044
	0.043	0.046	0.829	0.924	0.028	0.704	0.008	0.940	0.886	0.000	0.000	0.532		0.987	0.000	0.100	0.000	0.590
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x14	0.022	-0.026	0.084	,240**	-0.042	0.084	,405**	0.070	,275**	,359**	-0.142	-,760**	-0.001	1	-,176*	-0.067	-0.027	-0.064
	0.792	0.754	0.306	0.003	0.613	0.307	0.000	0.392	0.001	0.000	0.083	0.000	0.987		0.032	0.413	0.747	0.440
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x15	-,169*	-0.120	-,193*	-,271**	-0.109	-,184*	-,223**	-,196*	-,248**	-0.101	,203*	0.061	-,295**	-,176*	1	-0.077	-0.125	-0.060
	0.038	0.144	0.018	0.001	0.185	0.024	0.006	0.016	0.002	0.219	0.013	0.461	0.000	0.032		0.346	0.126	0.464
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x16	-0.049	-0.052	-0.075	-0.054	-0.038	-0.006	-0.054	-,172*	-0.071	-0.015	0.000	0.094	-0.135	-0.067	-0.077	1	,203*	-0.063
	0.551	0.527	0.359	0.515	0.642	0.944	0.509	0.035	0.391	0.858	0.999	0.252	0.100	0.413	0.346		0.013	0.448
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x17	0.005	-0.003	-0.041	0.015	0.001	-0.024	-0.087	-0.067	0.024	-0.160	-0.090	0.041	,352**	-0.027	-0.125	,203*	1	-0.073
	0.956	0.967	0.616	0.851	0.994	0.771	0.287	0.412	0.772	0.050	0.272	0.615	0.000	0.747	0.126	0.013		0.379
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	149
x18	0.039	0.053	0.067	0.075	0.021	0.004	0.005	,222**	0.021	-0.012	0.037	0.010	0.044	-0.064	-0.060	-0.063	-0.073	1
	0.640	0.520	0.414	0.362	0.797	0.965	0.948	0.007	0.803	0.884	0.655	0.906	0.590	0.440	0.464	0.448	0.379	
	149	149	149	149	149	149	149	149	149	149	149	149	149	149	149	149	149	600

**. Correlation is significant at the 0.01 level; *. Correlation is significant at the 0.05 level.
X1: Annualized Return of Firm; X2: Return to Risk Firm; X3: Market Annualized Return; X4: Capital Pricing Assets Model Return; X5: Jensen´s Alpha; X6: Return to Risk Market; X7: Total Annualized Firm Risk; X8: Total Annualized Market Risk; X9: Total Systematic Risk (Beta); X10: Total Unsystematic Risk; X11: Debt to Equity; X12: Total Dept; X13: Total Unlevered Systematic Risk (Unlevered Beta); X14: ROE; X15: ROCE; X16: ETR; X17: DTS; X18: Assets Book Value.

Table 10 Correlation analyse results second period (1ElectionDemocrats)

	x1	x2	x3	x4	x5	x6	x7	x8	x9	x10	x11	x12	x13	x14	x15	x16	x17	x18
x1	1	,941**	,481**	,570**	,954**	,478**	,183*	-,220**	0.110	,226**	-0.044	-,162*	-0.005	-0.103	-0.016	0.010	-0.016	-0.054
		0.000	0.000	0.000	0.000	0.000	0.025	0.007	0.180	0.005	0.595	0.047	0.951	0.211	0.847	0.900	0.849	0.534
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x2	,941**	1	,521**	,546**	,894**	,517**	0.055	-,313**	-0.010	0.153	-0.056	-0.159	-0.018	-0.049	0.052	0.057	-0.009	-0.046
	0.000		0.000	0.000	0.000	0.000	0.505	0.000	0.902	0.061	0.496	0.051	0.826	0.550	0.526	0.492	0.915	0.592
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x3	,481**	,521**	1	,873**	,239**	,995**	-,226**	-,598**	-,297**	0.041	-,247**	0.045	-0.002	0.009	0.050	0.158	0.015	0.037
	0.000	0.000		0.000	0.003	0.000	0.005	0.000	0.000	0.618	0.002	0.588	0.980	0.917	0.547	0.054	0.851	0.669
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x4	,570**	,546**	,873**	1	,298**	,865**	-0.070	-,518**	-0.068	-0.035	-,196*	0.080	-0.015	-0.047	-0.016	0.096	-0.017	0.037
	0.000	0.000	0.000		0.000	0.000	0.394	0.000	0.409	0.668	0.016	0.333	0.855	0.568	0.850	0.242	0.838	0.672
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x5	,954**	,894**	,239**	,298**	1	,240**	,238**	-0.066	0.153	,275**	0.021	-,218**	0.000	-0.102	-0.013	-0.023	-0.012	-0.087
	0.000	0.000	0.003	0.000		0.003	0.003	0.420	0.062	0.001	0.800	0.007	0.996	0.214	0.877	0.779	0.884	0.316
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x6	,478**	,517**	,995**	,865**	,240**	1	-,213**	-,591**	-,292**	0.061	-,245**	0.043	-0.001	0.008	0.048	0.156	0.016	0.038
	0.000	0.000	0.000	0.000	0.003		0.009	0.000	0.000	0.458	0.002	0.603	0.992	0.927	0.556	0.057	0.842	0.663
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x7	,183*	0.055	-,226**	-0.070	,238**	-,213**	1	,580**	,916**	,609**	,227**	0.051	-0.010	-,268**	-,474**	-0.046	0.078	-0.100
	0.025	0.505	0.005	0.394	0.003	0.009		0.000	0.000	0.000	0.005	0.539	0.907	0.001	0.000	0.580	0.342	0.248
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x8	-,220**	-,313**	-,598**	-,518**	-0.066	-,591**	,580**	1	,564**	,289**	,312**	-0.083	0.026	-0.085	-0.154	-,186*	0.009	-0.037
	0.007	0.000	0.000	0.000	0.420	0.000	0.000		0.000	0.000	0.000	0.313	0.756	0.300	0.061	0.023	0.917	0.673
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x9	0.110	-0.010	-,297**	-0.068	0.153	-,292**	,916**	,564**	1	,240**	,311**	0.098	0.050	-,255**	-,429**	-0.062	-0.015	-0.013
	0.180	0.902	0.000	0.409	0.062	0.000	0.000	0.000		0.003	0.000	0.234	0.540	0.002	0.000	0.452	0.851	0.884
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x10	,226**	0.153	0.041	-0.035	,275**	0.061	,609**	,289**	,240**	1	-0.065	0.071	-0.123	-0.146	-,299**	0.012	-0.159	-,214*
	0.005	0.061	0.618	0.668	0.001	0.458	0.000	0.000	0.003		0.428	0.388	0.133	0.076	0.000	0.882	0.052	0.012
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x11	-0.044	-0.056	-,247**	-,196*	0.021	-,245**	,227**	,312**	,311**	-0.065	1	-0.043	-,213**	0.019	0.124	0.035	-,160*	-,193*
	0.595	0.496	0.002	0.016	0.800	0.002	0.005	0.000	0.000	0.428		0.604	0.009	0.815	0.131	0.670	0.050	0.024
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x12	-,162*	-0.159	0.045	0.080	-,218**	0.043	0.051	-0.083	0.098	-0.071	-0.043	1	,183*	,298**	-0.136	0.037	0.144	,286**
	0.047	0.051	0.588	0.333	0.007	0.603	0.539	0.313	0.234	0.388	0.604		0.025	0.000	0.096	0.655	0.079	0.001
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x13	-0.005	-0.018	-0.002	-0.015	0.000	-0.001	-0.010	0.026	0.050	-0.123	-,213**	,183*	1	-0.014	-0.151	-0.147	,979**	,943**
	0.951	0.826	0.980	0.855	0.996	0.992	0.907	0.756	0.540	0.133	0.009	0.025		0.864	0.065	0.073	0.000	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x14	-0.103	-0.049	0.009	-0.047	-0.102	0.008	-,268**	-0.085	-,255**	-0.146	0.019	,298**	-0.014	1	,563**	0.108	0.001	-0.033
	0.211	0.550	0.917	0.568	0.214	0.927	0.001	0.300	0.002	0.076	0.815	0.000	0.864		0.000	0.187	0.991	0.703
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x15	-0.016	0.052	0.050	-0.016	-0.013	0.048	-,474**	-0.154	-,429**	-,299**	0.124	-0.136	-0.151	,563**	1	,198*	-0.058	-0.094
	0.847	0.526	0.547	0.850	0.877	0.556	0.000	0.061	0.000	0.000	0.131	0.096	0.065	0.000		0.015	0.482	0.277
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x16	0.010	0.057	0.158	0.096	-0.023	0.156	-0.046	-,186*	-0.062	0.012	0.035	0.037	-0.147	0.108	,198*	1	-0.136	0.151
	0.900	0.492	0.054	0.242	0.779	0.057	0.580	0.023	0.452	0.882	0.670	0.655	0.073	0.187	0.015		0.096	0.078
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x17	-0.016	-0.009	0.015	-0.017	-0.012	0.016	-0.078	0.009	-0.015	-0.159	-,160*	0.144	,979**	0.001	-0.058	-0.136	1	,918**
	0.849	0.915	0.851	0.838	0.884	0.842	0.342	0.917	0.851	0.052	0.050	0.079	0.000	0.991	0.482	0.096		0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	136
x18	-0.054	-0.046	0.037	0.037	-0.087	0.038	-0.100	-0.037	-0.013	-,214*	-,193*	,286**	,943**	-0.033	-0.094	0.151	,918**	1
	0.534	0.592	0.669	0.672	0.316	0.663	0.248	0.673	0.884	0.012	0.024	0.001	0.000	0.703	0.277	0.078	0.000	
	136	136	136	136	136	136	136	136	136	136	136	136	136	136	136	136	136	136

**. Correlation is significant at the 0.01 level; *. Correlation is significant at the 0.05 level.

X1: Annualized Return of Firm; X2: Return to Risk Firm; X3: Market Annualized Return; X4: Capital Pricing Assets Model Return; X5: Jensen´s Alpha; X6: Return to Risk Market; X7: Total Annualized Firm Risk; X8: Total Annualized Market Risk; X9: Total Systematic Risk (Beta); X10: Total Unsystematic Risk; X11: Debt to Equity; X12: Total Dept; X13: Total Unlevered Systematic Risk (Unlevered Beta); X14: ROE; X15: ROCE; X16: ETR; X17: DTS; X18: Assets Book Value

Table 11 Correlation analyse results second period (2ElectionDemocrats)

	x1	x2	x3	x4	x5	x6	x7	x8	x9	x10	x11	x12	x13	x14	x15	x16	x17	x18
x1	1	,928**	,459**	,487**	,870**	,457**	-0.137	-,357**	-,246**	,201*	0.144	-0.022	-,179*	-0.023	0.016	-0.155	-,168*	-,271**
		0.000	0.000	0.000	0.000	0.000	0.095	0.000	0.002	0.014	0.080	0.790	0.028	0.777	0.850	0.058	0.039	0.001
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x2	,928**	1	,574**	,518**	,770**	,572**	-,295**	-,425**	-,344**	0.065	0.095	-0.004	-0.119	-0.003	0.032	-0.133	-0.105	-,194*
	0.000		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.428	0.250	0.965	0.147	0.976	0.696	0.106	0.200	0.020
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x3	,459**	,574**	1	,783**	0.083	,979**	-,436**	-,779**	-,605**	,286**	0.037	-0.023	0.018	-0.021	0.019	-0.068	0.039	-0.005
	0.000	0.000		0.000	0.313	0.000	0.000	0.000	0.000	0.000	0.650	0.782	0.824	0.802	0.817	0.410	0.640	0.950
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x4	,487**	,518**	,783**	1	-0.006	,855**	-,191*	-,789**	-,278**	0.152	0.123	-0.033	-0.065	-0.038	-0.103	0.021	-0.084	-0.064
	0.000	0.000	0.000		0.938	0.000	0.019	0.000	0.001	0.064	0.135	0.691	0.428	0.644	0.209	0.800	0.309	0.444
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x5	,870**	,770**	0.083	-0.006	1	0.040	-0.049	0.037	-0.125	0.144	0.095	-0.007	-,169*	-0.005	0.076	-,189*	-0.146	-,277**
	0.000	0.000	0.313	0.938		0.623	0.553	0.654	0.129	0.078	0.246	0.936	0.039	0.949	0.355	0.020	0.075	0.001
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x6	,457**	,572**	,979**	,855**	0.040	1	-,442**	-,827**	-,565**	,195*	0.067	-0.025	0.016	-0.023	0.021	-0.072	0.029	-0.012
	0.000	0.000	0.000	0.000	0.623		0.000	0.000	0.000	0.017	0.416	0.758	0.850	0.777	0.797	0.383	0.724	0.891
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x7	-0.137	-,295**	-,436**	-,191*	-0.049	-,442**	1	,488**	,880**	,347**	0.058	-0.075	-,247**	-0.088	-,174*	,240**	-,276**	-0.128
	0.095	0.000	0.000	0.019	0.553	0.000		0.000	0.000	0.000	0.484	0.361	0.002	0.284	0.033	0.003	0.001	0.128
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x8	-,357**	-,425**	-,779**	-,789**	0.037	-,827**	,488**	1	,572**	-0.112	-0.094	-0.040	-0.016	-0.038	0.015	0.018	-0.017	0.011
	0.000	0.000	0.000	0.000	0.654	0.000	0.000		0.000	0.171	0.251	0.627	0.841	0.640	0.860	0.824	0.835	0.900
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x9	-,246**	-,344**	-,605**	-,278**	-0.125	-,565**	,880**	,572**	1	-0.140	0.021	-0.046	0.144	0.058	-,208*	,169*	-,194*	-0.049
	0.002	0.000	0.000	0.001	0.129	0.000	0.000	0.000		0.088	0.799	0.579	0.078	0.483	0.011	0.039	0.017	0.558
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x10	,201*	0.065	,286**	0.152	0.144	,195*	,347**	-0.112	-0.140	1	0.079	-0.066	-,229**	-0.070	0.046	,168*	-,192*	-,169*
	0.014	0.428	0.000	0.064	0.078	0.017	0.000	0.171	0.088		0.339	0.420	0.005	0.397	0.573	0.040	0.019	0.043
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x11	0.144	0.095	0.037	0.123	0.095	0.067	0.058	-0.094	0.021	0.079	1	-0.071	-0.157	-0.067	,280**	-0.050	-0.024	-,206*
	0.080	0.250	0.650	0.135	0.246	0.416	0.484	0.251	0.799	0.339		0.385	0.055	0.416	0.001	0.545	0.770	0.013
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x12	-0.022	-0.004	-0.023	-0.033	-0.007	-0.025	-0.075	-0.040	-0.046	-0.066	-0.071	1	0.037	,999**	-0.029	0.007	0.007	0.042
	0.790	0.965	0.782	0.691	0.936	0.758	0.361	0.627	0.579	0.420	0.385		0.650	0.000	0.728	0.934	0.930	0.620
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x13	-,179*	-0.119	0.018	-0.065	-,169*	0.016	-,247**	-0.016	-0.144	-,229**	-0.157	0.037	1	0.023	-,236**	-0.078	,979**	,901**
	0.028	0.147	0.824	0.428	0.039	0.850	0.002	0.841	0.078	0.005	0.055	0.650		0.776	0.004	0.343	0.000	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x14	-0.023	-0.003	0.021	-0.038	-0.005	-0.023	-0.088	-0.038	-0.058	-0.070	-0.067	,999**	0.023	1	0.002	-0.013	-0.003	0.025
	0.777	0.976	0.802	0.644	0.949	0.777	0.284	0.640	0.483	0.397	0.416	0.000	0.776		0.977	0.874	0.972	0.762
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x15	0.016	0.032	0.019	-0.103	0.076	0.021	-,174*	0.015	-,208*	0.046	,280**	-0.029	-,236**	0.002	1	-,211**	-0.125	-,344**
	0.850	0.696	0.817	0.209	0.355	0.797	0.033	0.860	0.011	0.573	0.001	0.728	0.004	0.977		0.010	0.127	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x16	-0.155	-0.133	-0.068	0.021	-,189*	-0.072	,240**	0.018	,169*	,168*	-0.050	0.007	-0.078	-0.013	-,211**	1	-0.096	,246**
	0.058	0.106	0.410	0.800	0.020	0.383	0.003	0.824	0.039	0.040	0.545	0.934	0.343	0.874	0.010		0.242	0.003
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x17	-,168*	-0.105	0.039	-0.084	-0.146	0.029	-,276**	-0.017	-,194*	-,192*	-0.024	0.007	,979**	-0.003	-0.125	-0.096	1	,865**
	0.039	0.200	0.640	0.309	0.075	0.724	0.001	0.835	0.017	0.019	0.770	0.930	0.000	0.972	0.127	0.242		0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	144
x18	-,271**	-,194*	-0.005	-0.064	-,277**	-0.012	-0.128	0.011	-0.049	-,169*	-,206*	0.042	,901**	0.025	-,344**	,246**	,865**	1
	0.001	0.020	0.950	0.444	0.001	0.891	0.128	0.900	0.558	0.043	0.013	0.620	0.000	0.762	0.000	0.003	0.000	
	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144

**. Correlation is significant at the 0.01 level; *. Correlation is significant at the 0.05 level.

X1: Annualized Return of Firm; X2: Return to Risk Firm; X3: Market Annualized Return; X4: Capital Pricing Assets Model Return; X5: Jensen´s Alpha; X6: Return to Risk Market; X7: Total Annualized Firm Risk; X8: Total Annualized Market Risk; X9: Total Systematic Risk (Beta); X10: Total Unsystematic Risk; X11: Debt to Equity; X12: Total Dept; X13: Total Unlevered Systematic Risk (Unlevered Beta); X14: ROE; X15: ROCE; X16: ETR; X17: DTS; X18: Assets Book Valu

Table 12 Correlation analyse results second period (2ElectionRepublicans)

	x1	x2	x3	x4	x5	x6	x7	x8	x9	x10	x11	x12	x13	x14	x15	x16	x17	x18
x1	1	,785**	0.145	,311**	,989**	0.080	,408**	-0.075	,266**	,322**	0.028	0.028	-0.086	0.017	-0.076	-0.010	0.042	-0.091
		0.000	0.077	0.000	0.000	0.331	0.000	0.365	0.001	0.000	0.730	0.735	0.294	0.836	0.353	0.904	0.638	0.269
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x2	,785**	1	,361**	,367**	,756**	,308**	0.074	-,296**	-0.032	0.125	0.033	0.049	-0.025	0.101	0.040	0.126	0.094	-0.026
	0.000		0.000	0.000	0.000	0.000	0.367	0.000	0.700	0.127	0.686	0.555	0.760	0.219	0.628	0.123	0.287	0.750
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x3	0.145	,361**	1	,709**	0.038	,957**	-,194*	-,928**	-,547**	,197*	-0.101	-0.016	0.038	-0.003	-0.009	-0.107	0.062	0.035
	0.077	0.000		0.000	0.647	0.000	0.017	0.000	0.000	0.016	0.218	0.842	0.641	0.971	0.916	0.192	0.484	0.668
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x4	,311**	,367**	,709**	1	,164*	,676**	0.139	-,674**	0.005	,182*	-0.097	0.031	-0.075	0.064	-0.026	-0.110	0.017	-0.068
	0.000	0.000	0.000		0.045	0.000	0.089	0.000	0.952	0.026	0.237	0.710	0.360	0.436	0.756	0.181	0.848	0.406
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x5	,989**	,756**	0.038	,164*	1	-0.024	,401**	0.030	,275**	,306**	0.045	0.024	-0.078	0.008	-0.075	0.007	0.038	-0.083
	0.000	0.000	0.647	0.045		0.767	0.000	0.719	0.001	0.000	0.586	0.770	0.345	0.927	0.360	0.932	0.665	0.311
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x6	0.080	,308**	,957**	,676**	-0.024	1	-,235**	-,981**	-,558**	0.151	-0.114	-0.039	0.036	-0.021	-0.023	-0.104	0.078	0.031
	0.331	0.000	0.000	0.000	0.767		0.004	0.000	0.000	0.065	0.163	0.633	0.658	0.795	0.780	0.205	0.381	0.711
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x7	,408**	0.074	-,194*	0.139	,401**	-,235**	1	,239**	,663**	,782**	0.027	0.030	-,281**	-0.139	-,457**	-,212**	-,253**	-,296**
	0.000	0.367	0.017	0.089	0.000	0.004		0.003	0.000	0.000	0.739	0.711	0.001	0.090	0.000	0.009	0.004	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x8	-0.075	-,296**	-,928**	-,674**	0.030	-,981**	,239**	1	,513**	-0.109	0.110	0.032	-0.034	0.018	0.032	0.108	-0.069	-0.023
	0.365	0.000	0.000	0.000	0.719	0.000	0.003		0.000	0.186	0.179	0.697	0.679	0.826	0.700	0.188	0.433	0.782
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x9	,266**	-0.032	-,547**	0.005	,275**	-,558**	,663**	,513**	1	0.051	0.074	0.063	-0.119	-0.016	-,231**	-0.002	-0.079	-0.119
	0.001	0.700	0.000	0.952	0.001	0.000	0.000	0.000		0.534	0.367	0.447	0.146	0.843	0.004	0.982	0.370	0.148
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x10	,322**	0.125	,197*	,182*	,306**	0.151	,782**	-0.109	0.051	1	-0.025	-0.011	-,275**	-,172*	-,417**	-,281**	-,233**	-,296**
	0.000	0.127	0.016	0.026	0.000	0.065	0.000	0.186	0.534		0.759	0.890	0.001	0.036	0.000	0.001	0.008	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x11	0.028	0.033	-0.101	-0.097	0.045	-0.114	0.027	0.110	0.074	-0.025	1	-0.002	-0.013	0.014	0.037	-0.061	-0.046	0.011
	0.730	0.686	0.218	0.237	0.586	0.163	0.739	0.179	0.367	0.759		0.979	0.877	0.865	0.650	0.460	0.606	0.890
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x12	0.028	0.049	-0.016	0.031	0.024	-0.039	0.030	0.032	0.063	-0.011	-0.002	1	,165*	,904**	-0.084	-0.059	0.093	0.137
	0.735	0.555	0.842	0.710	0.770	0.633	0.711	0.697	0.447	0.890	0.979		0.044	0.000	0.306	0.476	0.292	0.094
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x13	-0.086	-0.025	0.038	-0.075	-0.078	0.036	-,281**	-0.034	-0.119	-,275**	-0.013	,165*	1	0.090	-0.152	0.000	,939**	,985**
	0.294	0.760	0.641	0.360	0.345	0.658	0.001	0.679	0.146	0.001	0.877	0.044		0.275	0.063	0.998	0.000	0.000
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x14	0.017	0.101	-0.003	0.064	0.008	-0.021	-0.139	0.018	-0.016	-,172*	0.014	,904**	0.090	1	,197*	-0.064	-0.011	0.084
	0.836	0.219	0.971	0.436	0.927	0.795	0.090	0.826	0.843	0.036	0.865	0.000	0.275		0.016	0.437	0.898	0.305
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x15	-0.076	0.040	-0.009	-0.026	-0.075	-0.023	-,457**	0.032	-,231**	-,417**	0.037	-0.084	-0.152	,197*	1	-0.098	-,326**	-0.103
	0.353	0.628	0.916	0.756	0.360	0.780	0.000	0.700	0.004	0.000	0.650	0.306	0.063	0.016		0.234	0.000	0.212
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x16	-0.010	0.126	-0.107	-0.110	0.007	-0.104	-,212**	0.108	-0.002	-,281**	-0.061	-0.059	0.000	-0.064	-0.098	1	,269**	-0.012
	0.904	0.123	0.192	0.181	0.932	0.205	0.009	0.188	0.982	0.001	0.460	0.476	0.998	0.437	0.234		0.002	0.881
	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	130	150
x17	0.042	0.094	0.062	0.017	0.038	0.078	-,253**	-0.069	-0.079	-,233**	-0.046	0.093	,939**	-0.011	-,326**	,269**	1	,914**
	0.638	0.287	0.484	0.848	0.665	0.381	0.004	0.433	0.370	0.008	0.606	0.292	0.000	0.898	0.000	0.002		0.000
	130	130	130	130	130	130	130	130	130	130	130	130	130	130	130	130	130	130
x18	-0.091	-0.026	0.035	-0.068	-0.083	0.031	-,296**	-0.023	-0.119	-,296**	0.011	0.137	,985**	0.084	-0.103	-0.012	,914**	1

**. Correlation is significant at the 0.01 level; *. Correlation is significant at the 0.05 level.

X1: Annualized Return of Firm; X2: Return to Risk Firm; X3: Market Annualized Return; X4: Capital Pricing Assets Model Return; X5: Jensen´s Alpha; X6: Return to Risk Market; X7: Total Annualized Firm Risk; X8: Total Annualized Market Risk; X9: Total Systematic Risk (Beta); X10: Total Unsystematic Risk; X11: Debt to Equity; X12: Total Dept; X13: Total Unlevered Systematic Risk (Unlevered Beta); X14: ROE; X15: ROCE; X16: ETR; X17: DTS; X18: Assets Book Value.

Based on the correlation results shown on Table 12, the author may suggest that, the correlation between the Annualised Return to Firm and Capital Pricing Asset model by 99% of confidence is 1% significant. It means that the relationship between of this variable are very strong. Thus, Annualised Return to Firm is effecting on Expected return, higher Annualised Return to Firm higher Expected return. Based on the correlation results on Table 12, the Annualised Return to Firm is strongly affecting on Total Annualized Firm Risk, Total Unsystematic Risk and Total Systematic Risk.

From the other side, the negative correlation between Annualised return and Total Unlevered Systematic Risk (Unlevered Beta), as same as Return on Capital Employed and Assets Book Value don't effect on each other anyhow.

Return to Risk Firm ratio is highly affecting on Annualised Return to Firm, Return to Risk Market, Expected Return, Market Annualized Return and Jensen's Alpha coefficient.

To summarize all above, the results from each of four periods shows high correlation between the Annualised Return to Firm and Annualised Return to Firm, Expected Return, Jensen´s Alpha, Total Unsystematic Risk.

In Table 9 (1ElectionRepublicans) and Table 12 (2ElectionRepublicans), in addition, the Annualised Return to Firm have high relationship with Total Annualized Firm Risk and Total Systematic Risk measures.

In Table 10 (1ElectionDemocrats) and Table 11 (2ElectionRepublicans), there is also repeated a high correlation between the Annualised Return to Firm and Return to Risk Market.

4.3 Rgression analysis results

In this research, the author provides the two Multivariate ordinary least square (OLS) regressions models in each of four research periods, in order to analyse the relationship of multiple variables. The regression model 1 analyses the relationship between the independent variables (table 4) and dependent variable Annualized Firm Return (AnnulRetFirm). The regression model 2 analyses the relationship between the independent variables (table 4) and dependent variable Risk Adjusted Annualized Return (RETToRISKFirm). In this research the confidence value of independent variables is measured by level of significance which is remaining between the 1% and 10%. Thus, more higher significance number lower the confidence of variable value.

The output of regressions results analyses is also including the ANOVA founding's: R Square, Durbin-Watson Test and Number of Observations. R Square is the explanatory power of the model. Durbin-Watson test is shows that there is the order correlation, what means as long as Durbin-Watson test is between 1.75 and 2.25 it is fine. Dublin-Watson test indicates the quality of calculations and that the independent variables are well defined. The Number of Observations gives for the reader the information how many times the information was processed through the investigation process. In this research the Number of Observations in each of two regression analyses models through four research periods is shows 150, that means that each period the data of 50 U.S companies were processed 3 times.

Table 13 OLS Regression Output (1ElectionRepublicans)

Dependent Variable	Annualized Return (AnnulRetFirm) Model 1	Risk Adjusted Annualized Return (RETToRISKFirm) Model 2
(Constant)	-0,248 (-0,328)	-0,247 (-0,266)
MarktAnnualRET	4,931 ** (2,179)	-4,018* (-1,489)
CAPMRet	-0,949 (-0,848)	-0,919 (-0,708)
JenAlpha	2,533 *** (36,572)	2,565 *** (32,656)
RETtoRISKMarket	1,361 *** (3,385)	1,173 ** (2,377)
TOTAnnualRISKMark	9,286 ** (2,122)	8,911 * (1,534)
ToTSysRisk	3,836 ** (2,117)	3,586 * (1,467)
ToTUnsysRisk	-5,792 *** (-6,674)	-5,701 *** (-5,422)
ToTUnleverSysRisk	-1,962 ** (-2,045)	-1,758 *(-1,557)
D2E	-0,001 (-0,782)	-0,005 * (-1,464)
NLofDebt	-0,068 ** (-2,231)	-0,021 (-0,204)
ROE	0,023 (0,627)	0,426 *(1,373)
ROCE	1,09 (1,194)	0,270 (0,232)
ETR	-0,019 (-0,234)	0,028 (0,198)
NLDTS	-0,061 * (-1,87)	0,000 (0,656)
AssetsBookValue	0,000 (0,916)	-0,045 (-0,435)
R-Square	0,939	0,928
Durbin-Watson Test	1,863	1,714
Number of Observations	150	150

Significance level *** p<0,01; ** p<0,05; p* <0,10.

In each of four Tables (Tab.13; 14; 15; 16) in the head, the reader can see the two regression models. Model 1 have a dependent variable Annualized return to Firm (AnnulRetFirm); In Model 2 a dependent variable is Return to Risk Firm (RETToRISKFirm). The independent variables (Tab. 4) are located on the right side of Tables (Tab.13; 14; 15; 16), in same order. The Unstandardized Coefficients are for both models a same – Beta, and its output is shown by upper number. The t-value is shown inside of the hooks, under the Unstandardized Coefficients. The t-test tool was used for testing hypotheses. Thus, the Regression coefficients are followed by t-values in parentheses. In this chapter, the author will take under consideration only significant results of OLS regressions. Thus, only significant outputs of the regressions will be interpreting by the author.

Table 13 Description of results

According to results of first regression (Table 13) of first researched period (1ElectionRepublicans) the R -Square shows 93.8% movement in the dependent variable (Annualized return to Firm) is explained by all the independent variables together, which means that only 6.2% effect is unexplained. R-Square is explanatory power of the model. Basically, R-square coefficient shows very good result. The R-square coefficient shows the explanatory power of the model. It is mean that the explanatory power of the Model 1 is 93,8 %. The Model 2 (Tab.13) shows the R-square 92,8 % movement in the dependent variable (Return to Risk Firm) is explained by all the independent variables together, which means that only 7.2% effect is unexplained.

Durbin-Watson Test statistic is a test statistic used to detect the presence of autocorrelation; if the value is close to 2 (DW 1,75-2,25) it is fine. The result of Model1 is equal to 1.862 – that shows good result. In model 2 the result is equal to 1,714 which is also good. The Significance level here is equal to zero (0), this mean that with 100% of confidence, the author can claim that R-square is significant.

In Table 13, the reader can see that as the Market Annualized Return goes up, companies Annualized Return rises too. Here, with 95% of confidence, it can be considered that Market Annualized Return is effecting on Annualized Return of the firm positively.

The measurement of the risk premium risk - Jensen´s Alpha is also positively effecting on the Annualized Return to the firm. So, with 99% of confidence the author can say that increasing average stock return is positively affecting on the Annualized Return of companies. Return to Market Risk is also positively affecting on the Annualized Return of companies in this researched period (1ElectionRepublicans).

The negative relationship is between the Total Unsystematic Risk and Annualized Return to the company. With 95 % of confidence, the author can confirm, that as a Total Unsystematic Risk (residual risk) is decreases the Annualised return of the researched companies also goes down. Total Systematic Risk is positively impacting

on Annualised return of the researched companies. The Total Unlevered Systematic risk are also negatively effects on the Annualized Return to the company. Thus, it could be assumed that when the rate of return, which companies expects to earn on its asset without the effect of Debt, goes down it is negatively effects on Annualised return of the researched companies. Debt to Equity - the real value of the researched companies is also negatively impacting on the Annualized Return of researched companies. The Duration Times Spread is giving a negative impact to Annualized Return of companies. Thus, here the author can say that the negative measuring the credit volatility of a corporate bond impacting on Annualized Return of researched companies.

According to results of second OLS regression, the reader can see, that the Market Annualized return is negatively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). So, that means that when the Annualized Market Return go down this negatively impacting on an investment's annualized return riskiness. The measurement of the risk premium risk - Jensen´s Alpha is positively effecting on Annualised Risk-adjusted return (Return to Risk Firm). Thus, the author can say with a 99% of confidence, that increasing average stock return is positively effecting on the investment's annualized return riskiness. Return to Market Risk is also positively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). Here it can be assumed, that the increasing of market risk premium a positively impacting on an investment's annualized return riskiness. Total Annualized Market Risk is positively impacting on the Annualised Risk-adjusted return (Return to Risk Firm) too. Therefore, the author assumes that the annualized market risk premium growth is positively impact on investment's annualized return riskiness. Total Systematic Risk is positively effects on investment's annualized return riskiness. The Total Unsystematic Risk negatively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, here possible to confirm that decreasing of Total Unsystematic Risk (residual risk) negatively impact on the investment's annualized return riskiness. The Total Unlevered Systematic risk is also negatively effects on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, it could be assumed that when the rate of return, which companies expecting to earn on its asset without the effect of Debt, goes down it is negatively effects on the investment's annualized return riskiness.

Dept to Equity is negatively impacts on Annualised Risk-adjusted return (Return to Risk Firm). here, the author can say that when the real value of the company goes down it is negatively impacting on the investment's annualized return riskiness. Return to Equity is positively impacting on the investment's annualized return riskiness, according to results of this OLS Regression results.

Table 14 OLS Regression Output (1ElectionDemocrats)

Dependent Variable	Annualized Return (AnnulRetFirm) Model 1	Risk Adjusted Annualized Return (RETToRISKFirm) Model 2
(Constant)	0,006(0,025)	0,409(0,687)
MarktAnnualRET	0,001(0,013)	1,822(1,373)
CAPMRet	0,467*** (36,456)	0,337(1,177)
JenAlpha	0,247*** (32,781)	1,693*** (23,685)
RETtoRISKMarket	0,001(0,031)	-0,323(-0,643)
TOTAnnualRISKMark	0,001(0,016)	-0,798(-1,267)
ToTSysRisk	0,000(0,001)	-0,231(-0,511)
ToTUnsysRisk	-0,000(-0,016)	-1,221*(-1,598)
ToTUnleverSysRisk	-0,002(-0,085)	-0,291(-0,707)
D2E	0,013(0,234)	-0,002(-0,242)
NLofDebt	0,002(0,119)	-0,233(-0,779)
ROE	-0,013(-0,113)	0,070(0,309)
ROCE	0,006(0,213)	-0,795(-0,731)
ETR	-0,004(-0,113)	0,250(0,319)
AssetsBookValue	-0,00(-0,026)	0,318*(1,616)
LNDTS	-0,000(-0,011)	-0,071(-0,341)
R-Square	0,756	0,894
Durbin-Watson Test	1,821	1,846
Number of Observations	150	150

Significance level *** p<0,01; ** p<0,05; p* <0,10.

Table 14 Description of results

According to results of first regression of second researched period (1ElectionDemocrats) the R -Square shows 75.6 % movement in the dependent variable (Annualized return to Firm) is explained by all the independent variables together, which means that only 24.4 % effect is unexplained. The explanatory power of the Model 1 is 75.6 %. The Model 2 shows the R- square 89.4 % movement in the

dependent variable (Return to Risk Firm) is explained by all the independent variables together, which means that only 10.6% effect is unexplained.

Durbin-Watson Test statistic result of both of regressions shows a good result. Model1 is equal to 1.821. In Model 2 is equal to 1,846.

According to the results of OLS regression Mode1 in this research period (1EllectionDemocret), the reader can see that the Expected Return (CAPM) is positively impact to Annualised return of the researched companies. Thus, with 99% of confidence the reader can assume that the expected return of stock growth is positively impact to the Annualized Return of researched companies, in this research period. The measurement of the risk premium risk, Jensen´s Alpha is also positively effecting on the Annualized Return to the firm. So, with 99% of confidence the author can say that increasing average stock return is positively affecting on the Annualized Return of companies.

According to results of second OLS regression, the reader can see, that the measurement of the risk premium risk, Jensen´s Alpha, is positively impacting on Annualised Risk-adjusted return (Return to Risk Firm). Thus, the author can say with a 99% of confidence, that increasing average stock return is positively impacting on the investment's annualized return riskiness. The Assets Book Value is positively impact on Annualised Risk-adjusted return (Return to Risk Firm), it could be assumed that the Assets Book Value is positively impact on the investment's annualized return riskiness. The Total Unsystematic Risk negatively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, here possible to confirm that decreasing of Total Unsystematic Risk (residual risk) negatively impact on the investment's annualized return riskiness.

Table 15 OLS Regression Output (2ElectionDemocrats)

Dependent Variable	Annualized Return (AnnulRetFirm) Model 1	Risk Adjusted Annualized Return (RETToRISKFirm) Model 2
(Constant)	0,006 (0,011)	0,328 (0,792)
MarktAnnualRET	2,111*** (2,051)	1,838** (1,953)
CAPMRet	2,567*** (45,781)	2,249*** (34,661)
JenAlpha	2,111*** (34,123)	3,175*** (30,802)
RETtoRISKMarket	0,983*** (6,195)	0,158 (0,805)
TOTAnnualRISKMark	0,451** (2,071)	1,77** (2,215)
ToTSysRisk	0,012** (2,042)	-0,386 (-0,728)
ToTUnsysRisk	0,211*** (8,021)	-5,851*** (-7,037)
ToTUnleverSysRisk	0,021** (2,032)	-0,161* (-1,311)
D2E	-0,211*** (-12,025)	-0,121** (-2,277)
NLofDebt	0,001 (0,011)	-0,441* (-1,574)
ROE	-0,003 (-0,019)	-0,293 (-1,161)
ROCE	-0,005 (-0,058)	0,684*** (4,628)
ETR	0,000 (0,147)	0,036* (1,318)
LNASSETS	0,036** (2,021)	0,307*** (8,474)
LNDTS	-0,001 (-0,121)	0,107* (1,407)
R-Square	0,861	0,779
Durbin-Watson Test	1,981	2,021
Number of Observations	150	150

Significance level *** p<0,01; ** p<0,05; p* <0,10.

Table 15 Description of results

According to results of first regression of third researched period (2ElectionDemocrats) the R -Square shows 86.1 % movement in the dependent variable (Annualized Return to Firm) is explained by all the independent variables together, which means that only 13.9 % effect is unexplained. The explanatory power the Model 2 shows the R- square 77.9 % movement in the dependent variable (Return to Risk Firm) is explained by all the independent variables together, which means that only 22.1 % effect is unexplained.

Durbin-Watson Test statistic result of both of regressions shows a good result. Model1 is equal to1,981. In Model 2 is equal to 2,021.

According to the results of Mode1 in this research period (2EllectionDemocret), the reader can see that the Market Annualized Return goes up, companies Annualized Return rises too. Here, with 95% of confidence, it can be considered that Market

Annualized Return is effecting on Annualized Return of the firm positively. the Expected Return (CAPM) is positively impact to Annualised return of the researched companies. Thus, with 99% of confidence the reader can assume that the expected return of stock growth is positively impact to the Annualized Return of researched companies, in this research period. The measurement of the risk premium risk, Jensen´s Alpha is also positively effecting on the Annualized Return to the firm. So, with 99% of confidence the author can say that increasing average stock return is positively affecting on the Annualized Return of companies. Return to Market Risk is also positively affecting on the Annualized Return of companies. Here it can be assumed, that the increasing of market risk premium a positively impacting on the Annualized Return of researched companies. The Total Systematic Risk is also positively impacting on Annualised return of the researched companies. The Total Unsystematic Risk in this research period is positively effecting on the Annualized Return to the company. With 99 % of confidence, the author can confirm, that as a Total Unsystematic Risk (residual risk) is increases the Annualised return of the researched companies also goes up. The Total Unlevered Systematic risk is positively effects on the Annualized Return to the company too. Thus, it could be assumed that when the rate of return, which companies expects to earn on its asset without the effect of Debt, goes up it is positively effects on Annualised return of the researched companies. Debt to Equity - the real value of the researched companies is also positively impacting on the Annualized Return of the companies. Total Assets of the researched companies are positively impacting on the Annualized Return of the companies. Thus, higher the Total Assets of the research companies, higher the Annualized Return of the companies.

According to OLS regression results of Mode2, the author can say, that the Market Annualized Return is positively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). So, that means that when the Annualized Market Return go up this positively impacting on an investment's annualized return riskiness. the Expected Return (CAPM) is positively impact to Annualised Risk-adjusted return (Return to Risk Firm) of the researched companies. Thus, with 95% of confidence the reader can assume that the expected return of stock growth is positively impact on an investment's annualized return riskiness. The measurement of the risk premium risk,

Jensen´s Alpha is also positively effecting on the Annualised Risk-adjusted return (Return to Risk Firm). So, with 99% of confidence the author can say that increasing average stock return is positively affecting on an investment's annualized return riskiness. Total Annualized Market Risk is positively impacting on the Annualised Risk-adjusted return (Return to Risk Firm) too. Therefore, the author assumes that the annualized market risk premium growth is positively impact on investment's annualized return riskiness. The Total Unsystematic Risk is negatively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, here possible to confirm that decreasing of Total Unsystematic Risk (residual risk) negatively impact on the investment's annualized return riskiness. The Total Unlevered Systematic risk is also negatively effects on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, it could be assumed that when the rate of return, which companies expecting to earn on its asset without the effect of Debt, goes down it is negatively effects on the investment's annualized return riskiness. Dept to Equity is negatively impacts on Annualised Risk-adjusted return (Return to Risk Firm). here, the author can say that when the real value of the company goes down it is negatively impacting on the investment's annualized return riskiness. Total Dept of the research companies is also negatively impacting on investment's annualized return riskiness. However, Return to Capital Employed is positively effects on investment's annualized return riskiness.

Table 16 OLS Regression Output (2ElectionRepublicans)

Dependent Variable	Annualized Return (AnnulRetFirm) Model 1	Risk Adjusted Annualized Return (RETToRISKFirm) Model 2
(Constant)	0,000(0,001)	0,902(0,936)
MarktAnnualRET	0,000(0,001)	-0,692(-0,514)
CAPMRet	1,342*** (45,234)	1,082*** (21,804)
JenAlpha	2,345*** (52,221)	1,832*** (32,372)
RETtoRISKMarket	0,001(0,018)	0,353**(2,022)
TOTAnnualRISKMark	0,000(0,011)	-2,557(-0,556)
ToTSysRisk	0,002(0,071)	1,028(1,114)
ToTUnsysRisk	0,002(0,083)	-2,194*** (-3,005)
ToTUnleverSysRisk	-0,021(-0,116)	0,03(0,358)
D2E	0,021(0,814)	-0,009(-0,843)
NLofDebt	0,022(1,011)	-0,101(-0,412)
ROE	-0,034(-1,221)	0,122(0,754)
ROCE	-0,01(-0,016)	-2,121*(-1,548)
ETR	-0,002(-0,029)	-0,349(-0,809)
AssetsBookValue	-0,001(-0,018)	0,039(0,222)
NLDTS	0,000(0,002)	0,065(0,388)
R-Square	0,871	0,823
Durbin-Watson Test	1,981	2,021
Number of Observations	150	150

Significance level *** p<0,01; ** p<0,05; p* <0,10.

Table 16 Description of results

According to results of first regression of third researched period (2ElectionRepublicans) the R -Square shows 87.1 % movement in the dependent variable (Annualized Return to Firm) is explained by all the independent variables together, which means that only 12.9 % effect is unexplained. The explanatory power the Model 2 shows the R- square 82.3% movement in the dependent variable (Return to Risk Firm) is explained by all the independent variables together, which means that only 17.7 % effect is unexplained.

Durbin-Watson Test statistic result of both of regressions shows a good result. Model1 is equal to1,981. In Model 2 is equal to 2,021.

According to the results of OLS regression Mode1, in this research period (2EllectionRepublicans), the reader can see that the Expected Return (CAPM) is positively impact to Annualised return of the researched companies. Thus, with 99%

of confidence the reader can assume that the expected return of stock growth is positively impact to the Annualized Return of researched companies, in this research period. The measurement of the risk premium risk, Jensen´s Alpha is also positively impact on the Annualized Return to the firm. Thus, with 99% of confidence the author can say that increasing average stock return is positively affecting on the Annualized Return of companies.

According to OLS regression results of Mode 2, the author can say, that the Expected Return (CAPM) is positively impact to Annualised Risk-adjusted return (Return to Risk Firm) of the researched companies. Thus, with 99% of confidence the reader can assume that the expected return of stock growth is positively impact on an investment's annualized return riskiness. The measurement of the risk premium risk, Jensen´s Alpha is also positively effecting on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, with 99% of confidence the author can say that increasing average stock return is positively affecting on an investment's annualized return riskiness. Return to Market Risk is also positively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). The author assumes, that the increasing of market risk premium a positively impacting on an investment's annualized return riskiness. Total Unsystematic Risk is negatively impacting on the Annualised Risk-adjusted return (Return to Risk Firm). Thus, here possible to confirm that decreasing of Total Unsystematic Risk (residual risk) negatively impact on the investment's annualized return riskiness. Return to Capital Employed is also negatively effects on investment's annualized return riskiness.

5 Conclusion

In this chapter of thesis, the author summarizes, interprets and draw inferences based on the key findings and gives appropriate recommendations for the future research possibilities. This chapter also highlights the limitations of the current study.

5.1 Discussions

The author chose current research topic due to the fact that the presidential election has a strong influence on the future development of the U.S. in general and

is an integral part of any political, economic and social development inside and outside of the country. Every time the presidential elections take place in the U.S. the instability phenomenon rises up, which is reflecting on financial markets climate itself. The author was interested to examine whether there are any links between the US presidential election and the risk and return of companies. Thus, the research problem was to investigate if there any associations between the U.S. presidential elections and the risk and return of the companies.

Thus, the main purpose of this research was aiming to investigate does the presidential election have any impact on the company's performance. The company's performance was measured by the stock returned, the annualized stock return and based on Risk-Return analyses of dynamic and additionally measured by is Annualized Return of Firm, Market Annualized Return, Capital Pricing Assets Model Return, Jensen´s Alpha, Return to Risk Market, Total Annualized Firm Risk, Total Annualized Market Risk, Total Systematic Risk (Beta) Total Unsystematic Risk, Debt to Equity, Total Dept, Total Unlevered Systematic Risk (Unlevered Beta), Return on Equity, Return on Capital Employed, Effective Tax Rate, Duration Times Spread, Assets Book Value performances. The research goal was to find out any connection, association between U.S. presidential elections and the type of political ideology of the party which comes in power. Therefore, it was important to investigate does these phenomena have any association with the top-fifty of leading U.S. companies and its performance in order to measure its Risk- Return.

To investigate the impact of the U.S. presidential elections on the stock market U.S. to study the impact of the presidential elections in U.S. on the Risk Return dynamics of the U.S. on the leading companies in U.S., in order to identify the linkages between the political party in the political power and the Risk Return dynamics in the U.S.

This specific research was based on quantitative data. In this research the author assumed positivism as a philosophical stance, as the study focuses on quantifiable observations and uses statistical data analysis. In particular, the thesis used deductive research approach based on quantitative data taken from the financial statements of fifty U.S. companies and from S&P 500 stock market.

The author used cross-sectional data allowing to study the dynamics of the phenomena over a period of four presidential elections. This research was build based on Casual study technique, in order to clarify and explain the casual relationship between the variables (the political changes, changes on stock market and changes in financial annual reports according the exact historical time period 2003-2017, during of three years (pre- during and year after presidential elections) in each of the four seasons.). Therefore, by author used three principles for investigation to gather preliminary information through the secondary data: The Literature review, historic data of companies from financial annual reports and the historical data from S&P 500 stock market records. An archival research strategy was used in this particular thesis, as the research data was based on historical records of top 50 listed U.S. companies from different industrial sectors. the analysis of all collected data was carried through SPSS Statistics software. This research is including several types of analysis such as a Descriptive statistics analysis, Correlation analysis and Regression Multivariate Ordinary Least Square (OLS) Analysis. The current research is divided for four research periods:

- the period of 55th presidential (2004), when the Republicans candidate George W. Bush won the elections. Under the investigation was taken 3 years (2003 pre-election year; 2004 election year and 2005 post-election year);

- The period of 56th presidential (2008), when the Democratic candidate Barak Obama won the elections. Under the investigation was taken 3 years. (2007 pre-election year; 2008 election year and 2009 post-election year);

- Third period of 57th presidential election (2012), when the Democratic candidate Barak Obama won the elections. Under the investigation was taken 3 years (2011 pre-election year; 2012 election year and 2013 post-election year);

- The period of period 58th presidential election (2016), when the Republican candidate Donald Trump won the elections. Under the investigation was taken 3 years. (2015 pre-election year; 2016 election year and 2017 post-election year).

In order to answer the research questions and prove the hypothesis, the author will summarize the data analyses findings.

Thus, based on OLS regression results of four researched periods, the author can confirm that all provided OLS regressions in this thesis gave a good result of R-Square coefficient. The shows the explanatory power of the model R-Square coefficient shows us that very high % of movement in the dependent variable is explained by all the independent variables together. The Durbin – Watson test statistics, shows that R-square is significant. Thus, the author can say, that all the independent variables together explain significant proportion of variation in the dependent variables. Based on all above, the author can conclude that all the variables had been rightly chosen and it proved by high percentage of R-Square.

Based on the OLS regressions results, on first researched period and fourth researched period, when the Republican candidates were won the president elections, the Jensen´s Alpha, in both of researched periods, was positively impacted on Annualized Return to companies with the significance level of 1%.

The Jensen's Alpha was positively also impacted on Return to Risk Firm Ratio with the significance level of 1% in both of the periods. Return to Market Risk was positively impacted on Return to Risk Firm Ratio with significance level of 5% in both of periods. And the Total Unsystematic Risk was negatively impacted on Return to Risk Firm Ratio with the significance level of 1%.

Based on the OLS regressions results, on second researched period and third researched period, when the Democratic candidates were won the president elections, the Expected Return (CAPM) are positively impacted on Annualized Return to companies with the significance level of 1% in both of researched periods. The Jensen´s Alpha, in both of researched periods, was also positively impacted on Annualized Return to companies with the significance level of 1%. The Jensen's Alpha was negatively impacted on Return to Risk Firm Ratio with the significance level of 1% in both of the periods. And the Total Unsystematic Risk was negatively impacted on Return to Risk Firm Ratio.

According to the results the author claims that whenever exceed the expectations, the company's stock return performance gets better. If the regression coefficient of Jensen's Alpha is positive, it means that whenever the company's stock Return exceed its expectation that is the time when companies stock return is rich. Whenever the company's stock return is below the expectation, that is the time when the companies stock market performance is poor. This phenomenon of Jensen's Alpha is very interesting, it is not only positive for Annualised stock return of sample companies, but it is also positive when we excise for the risk. Whenever the market risk resisted return goes up, the companies risk resisted return also goes up. Therefore, it indicates that the company's stock return and the market performance they are fully synced, aligned.

The unsystematic risk it is a risk which come within the company. Thus, the author can say, that whenever the company specific risk increases there is a negative impact on the company's stock market performance. Whenever there is more risk the company's performance will be effected negatively.

Despite the Republicans elections or Democrats elections, the risk and return relationship has been finding throughout. Whenever the is the market return improves the company return is also improves and whenever market risk increases the company risk is also increases.

Based on the OLS regressions results of all four presidential election periods, the author can conclude that whenever there is a higher Unsystematic risk the risk resisted return goes down, because there is a negative relationship between. Whenever there is increased Unsystematic risk, the company´s risk resisted return goes down, because whenever the company have some problems inside, that is also negatively effects on stock market. When it is too much of risk coming from company itself, then it is affecting on stock performance decline. Despite some exceptions, the Systematic risk and Return of the company both analysed and risk resisted are positively associated. That is mean, that whenever the Systematic risk increases, the annualised return and the risk performance are increasing. Thus, more the risk more is the return. Basically, this is confirming the risk-return phenomenon. Despite some exceptions, higher Leverage ratio (D2E) effects both of stock performance measures

negatively. Thus, whenever the company borrows more the stock market reaction is negative. If the investors can see that the companies borrow more then they become riskier, they not investing in such companies. However, higher debt causes higher risk therefore, the stock reaction is adverse.

In current thesis, the author provided two hypotheses: H1: The elections won by Republicans have impact on stock market risk - return dynamics; H2: The elections won by Democrats have impact on stock market risk - return dynamics.

The author can conclude that all hypotheses had been accepted. Based on observation over all researched Presidential elections periods, in each hypothesis the President elections made an impact on stock market risk - return dynamics. In four the President election periods the risk-return dynamics had been proved empirically. Thus, whenever the risk increasing the return increasing too.

Based on research results, the author can answer to the research questions.

- Does the U.S. presidential election impact the Stock Market in the U.S.? Yes, the U.S. presidential election impact the U.S. Stock Market.
- Does the presidential election make an impact on the Risk-Return dynamics about the U.S. firm? Yes, the presidential election impact on the Risk-Return dynamics, because based on the research results of four election periods the relationship between risk and return remains prominent.
- Is there any relation between the certain political party victory and the Risk-Return dynamic? No, there is not any relation between the certain political party victory and the Risk-Return dynamics. Despite the Republicans elections or Democrats elections, the risk and return relationship has been finding throughout.

To summarise all of above the author can conclude that whatever political party comes in power, the risk and return relationship goes arm-in-arm.

5.2 Limitations and recommendations for the further research

Despite the interesting findings, this study has some limitation also. One of the limitations of this study is that sample size is small. In the future studies the number of samples should be bigger. Second limitation is that the analytical part is not comprehensive. In the future studies the analytical part could be more comprehensive by involve additional research tools. This study does not recognize the industry and the sector effect. Therefore, in the future studies the author recommends considering the industry and sector effects.

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